French Public Finance

In the Great War and Today

With Chapters on
Banking and Currency

By
Harvey E. Fisk

New York—Paris
Bankers Trust Company
1922

Foreword

WE publish this book knowing that every effort has been made to have the statements and figures contained in it accurate. The principal sources of information are listed at the back of the book. All of the statistical data used in the preparation of the tables has been obtained from official sources. The book was submitted in proof form, in whole or in part, to many distinguished financial and economic authorities in France, who gave the proofs critical reading, checked some of the tables, and contributed valuable assistance. This has enabled us to make in this volume the first complete comparative statement to be published of the public finance statistics of France for each of the years which have elapsed since the beginning of the war in 1914. Desiring to relieve these authorities from any implication of responsibility that the specific mention of their names might entail, we content ourselves with expressing generally our thanks for their help, corrections and suggestions.

We will feel that we were justified in asking for the critical assistance which these distinguished French authorities have given so carefully, and that our purpose in publishing this book had been achieved, should it contribute to a more sympathetic understanding in this country of the financial problems that France had to solve during the war, and of the integrity, courage and resourcefulness with which she is meeting her problems of today.

BANKERS TRUST COMPANY
New York and Paris

July, 1922

Contents

Contents

Where money statistics are given in francs they may readily be done into dollars at the rate of 5 francs per dollar when exchange is at par (exact parity is 5.1826 francs to the dollar). During the period since 1914 allowance must be made for varying exchange rates. English readers will bear in mind that one billion = 1,000,000,000 = one milliard in France.

French Public Finance
In the Great War and Today

Chapter I
The "Armed Peace"
1873-1914

DURING the four decades which elapsed between the Franco-Prussian war and the great war, the nations of Europe expended forty and a half billion dollars, gold, upon their military and naval establishments;—an average of ten billion dollars a decade, a billion a year.

The Boer war cost England about one and a third billion and the Japanese war cost Russia a similar amount, while during this period most of the nations of Europe had little wars or disciplinary expeditions and the like. However, this does not materially affect the fact that, in the main, the military expenditures of the period were made in order to be ready for a conflagration which all alike dreaded, but which they feared sooner or later would eventuate.

Here is a table which gives the cost of the armed peace to each of the six great nations which before the war dominated Europe and in fact the whole eastern hemisphere.

FRENCH EXPENSES—MILITARY AND CIVIL

PEACE ESTABLISHMENT

1868–1913

(In *francs*—000,000 omitted.)

Classification	1868	1873	1883	1893	1903	1913	1913 % 1868	Increase over 1868	
								Actual	Per Cent.
Army	461	482	739	650	706	1,262	273.7	801	173.7
Navy and Colonies	197	156	279	331	408	656	332.9	459	232.9
Pensions *a*	56	85	123	144	159	192	342.8	136	242.8
Total Military	714	723	1,141	1,125	1,273	2,110	295.5	1,396	195.5
% Total	*37.5*	*25.2*	*30.7*	*32.6*	*35.4*	*41.6*	.....	*44.1*	.....
Debt Charge	382	1,196	1,121	1,039	924	958	250.8	576	150.8
All Other *b*	807	955	1,460	1,287	1,400	1,999	247.7	1,192	147.7
Grand Total	1,903	2,874	3,722	3,451	3,597	5,067	266.3	3,164	166.3

a Military only, including Legion of Honor.
b For items, see table "National Expenditures," page 182.

military disbursements in 1913 exceeded that war average by over six hundred million francs.

National Income vs. Cost of "Armed Peace"

The national income in 1913, that is the total income of the French people, as computed by the well-known French economist, M. René Pupin, was 37½ billion francs or seven and a half billion dollars. In 1868, estimating on the basis of the returns upon which the inheritance taxes are levied, the national income was around 20 billion francs or four billion dollars. Therefore the actual burden of the military peace establishment of 714,000,000 francs (say $140,000,000) in 1868 was about 3½ per cent. of the national income, while in 1913 the then military burden of over 2,100,000,000 francs (say $420,000,000), was over 5½ per cent. of the greater national income.

From every angle of observation the burden of the "armed peace" was becoming each year harder to bear, but as we have seen, this was so not for France alone, but for all of the European nations. The limit of endurance had about been reached, either the policy of piling up expenditure for armaments must stop for lack of means to meet them or the whole volatile mass might some day be exploded by a small spark. The latter tragedy eventuated.

Chapter II

The Cost of the Great War

1914–1919

An official report of the American War Department states that the recent world war was undoubtedly the bloodiest which has ever been fought and that "the total battle deaths were greater than all of the deaths in all wars for more than one hundred years previous."

Over 7,500,000 soldiers lost their lives when in action or as a result of wounds received in battle, nearly 17,000,000 more were wounded, and over 6,700,000 were reported missing or in prison. Thus the total casualties were just under 32,000,000, about fifty-five per cent. of the 57,400,000 men mobilized.

There were nearly 39 million men mobilized on the side of the Entente. France provided nearly 20 per cent. of these, just 20 per cent. of her population. During the period of Russia's active participation in the war she had more men mobilized, but these composed only about seven per cent. of her population. France led all of the allies in the percentage of her men called to the colors.

The battle deaths on the part of the Entente Allies were 4,804,000, 12.35 per cent. of the men mobilized. France lost in battle or as a result of wounds nearly 18½ per cent. of her mobilized men, a greater percentage than in the case of any other nation. Russia lost nearly 15 per cent. of the men mobilized but a much smaller percentage of those whom she might have mobilized. Great Britain came next with a loss of twelve per cent. of her mobilized forces.

On the other side the battle deaths were 2,750,000, not quite 15 per cent. of the mobilized forces. Germany lost 1,600,000 men, 16 per cent of those mobilized.

Further details are given in the following table:

COST OF THE GREAT WAR IN MEN
1914–1919
Killed, Wounded and Missing
(000 omitted)

Entente Allies	Population	Armies Mobilized	Battle Deaths			Wounded	Missing or Prisoners	Total Casualties		
			Battle Deaths	% Population	% Armies Mobilized			Total Casualties	% Population	% Armies Mobilized
France	38,000	7,500	[4]1,385	*3.60*	*18.46*	2,675	446	4,506	*11.88*	*60.08*
Italy	36,000	5,500	330	*0.90*	*6.00*	947	1,393	2,800	*7.78*	*50.90*
Russia	[2]170,000	11,500	1,700	*1.00*	*14.78*	3,000	2,000	6,700	*3.94*	*58.26*
British Empire[5]	54,900	7,500	900	*1.64*	*12.00*	2,200	400	3,500	*6.37*	*46.66*
United States	106,000	4,000	50	*0.05*	*1.25*	237	3	290	*0.27*	*7.25*
Other [3]	77,100	2,897	439	*0.57*	*15.11*	346	365	1,185	*1.54*	*40.90*
Total	482,000	38,897	4,804	*0.99*	*12.35*	9,405	4,607	18,981	*3.93*	*48.81*
Central Powers										
Germany	61,000	10,000	1,600	*2.62*	*16.00*	3,683	770	6,053	*9.92*	*60.53*
All Other	79,000	8,500	1,150	*1.45*	*13.52*	3,850	1,352	6,352	*8.04*	*74.72*
Total	140,000	18,500	2,750	*1.96*	*14.86*	7,533	2,122	12,405	*8.86*	*67.05*
Grand Total	622,000	57,397	7,554	*1.21*	*13.16*	16,938	6,729	31,386	*5.04*	*54.68*

1. This table adapted from table in Encyclopedia Americana, which in turn is stated to be based on official estimates of the United States War Department made in May, 1919.
2. 1917; Russian co-operation ended in October of that year.
3. Active participants.
4. Later figures give the total losses of France as 1,325,000 viz.: Killed in battle 674,700; died of wounds, 250,000; unaccounted for, 225,300; died of illness, 175,000.
5. Native populations not included.

The Money Cost of the War

It is doubtful whether the true cost of the war to all of the belligerents will ever be definitely known. Statistics such as would be required by a public accountant in order

to certify to the correctness of a statement are not now available. Probably they never will be obtainable.

Some of the nations which entered the war no longer exist. The status of others has been greatly changed. Russia is in the hands of the Bolshevists and very likely they have destroyed her books of account. In any event her accounting system is thoroughly dislocated. The former Central Powers, Germany excepted, have not published statements for the war period.

In the case of France we have only the budget appropriations as a guide, as the actual expenditures for the war years have not yet been published.

We have made a careful study of all available data, actual figures where published, appropriations, increase in public debts and official and semi-official statements made from time to time in the parliaments, in the public press and otherwise. As a result of this study we are led to believe that the gross direct money cost of the war approximated, perhaps exceeded, 223 billion dollars, apportioned about 140 billion to the Entente Allies and the United States and about 83 billion to the former Central Powers. In these totals inter-ally loans are eliminated.

These figures are obtained by converting the estimated expenses for each country from their national currencies into dollars at the par of exchange. That is the franc and the lira are valued at 19.3 cents, the pound sterling at $4.86, the mark at 23.8 cents, and so on.

However, in view of the depreciation in the purchasing power of all currencies, it is necessary in order to obtain an accurate statement of the cost of the war to reduce the statistics to some common basis. Especially is this necessary if we are to institute comparisons between the statements of the different nations.

No absolutely scientific basis has been devised for obtaining a common denominator for this purpose. Still we will be in good company if we follow in the footsteps of economists and statisticians who have made a comparative study of commodity prices and have devised what are known as "price index numbers." These numbers are based upon a combination and averaging of the prices of groups of commodities which enter into common use. The prices of the year 1913 are taken as normal, at any rate as prices not affected by war conditions. These prices are taken as a base (100%) and the prices for subsequent years are estimated in percentages of the base price. Thus it is possible to determine to what extent prices were increased by the war demand for commodities and especially how they were inflated by the great increase in the currencies and other credit facilities developed in financing the war.

We have used these price index numbers to reduce the war expenditures of each year to the 1913 base. That is to determine what the cost of each year's expenditure for armaments and for paying, feeding and clothing the soldiers would have been if prices had not advanced above what they were in 1913. This estimate was made separately for each nation engaged in the war and then the figures were combined.

The "boiled down" cost of the war as thus arrived at, what may be called the pre-war gold basis cost, is $84,045-000,000; $53,883,000,000 for the Entente Allies and the United States and $30,162,000,000 for the former Central Powers.

On the side of the allies the United Kingdom led with an expenditure of over 20 billion dollars; then came the United States with an outlay of 15 billion dollars and then France with 12½ billion. However, in addition to her direct war

expenditure France, due to the fact that the heaviest fighting of the war was on her territory, suffered property losses officially estimated in 1920 at 140,607 million francs which we may take to be about five billion dollars gold; prices in 1920 being about six times 1913 prices. Thus the gold cost of the war to France plus the property damages, say 17½ billion dollars all told, was equivalent to 30¼ per cent. of her pre-war national wealth. England's war expenses on a gold basis were about 28½ per cent.; Italy's 15¾ per cent. and Russia's about 13 per cent. respectively of their estimated pre-war wealth. The table on the opposite page will be found to repay careful study.

The Continuing Burden of Interest and Pensions

Great as was the money cost of the war as shown by this table, it was not so serious, after all, as is the perpetual burden of interest and pensions which the war has entailed. It will be some time yet before pension accounts are adjusted and the annual payments fully determined. For France alone, pensions on this account are now amounting to around $117,000,000; while the interest upon her war debt, exclusive of the debt to her allies, is calling for the equivalent of $1,767,000,000. This does not include interest on the debts to the governments of the United Kingdom and the United States which, figured at 5 per cent., is accruing at the rate of around $300 million a year.

The war left England with an increased debt charge, excluding interest on her debt to the United States accruing at the rate of about $200,000,000 a year, equal to about $1,500,000,000 and with additional pension payments of around five hundred million. Italy has to cope with an increased debt charge, not including interest at the rate of about $200

MONEY COST OF THE GREAT WAR
1914–1919
(In *dollars*—000,000 omitted)

Entente Allies	I At par of Currencies	II Adjusted to 1913 Purchasing Power of Currencies	% Total on 1913 Basis	III Population 1920	Cost Per Capita 1913 Basis	IV Pre-War National Wealth	Cost 1913 Basis (Col. II), Per Cent. National Wealth (Col. IV)
	$	$			$	$	
France	37,588	12,430	*19.73*	38	327	57,900	*21.5*
Italy	14,794	3,391	*5.38*	36	94	21,600	*15.7*
Russia *a*	20,500	7,913	*12.57*	170	47	60,000	*13.2*
United Kingdom	48,944	20,030	*31.80*	46	434	70,500	*28.4*
United States	33,456	14,969	*23.77*	106	141	200,000	*7.5*
Other Active Participants	8,500	4,250	*6.75*	86	49	30,000	*14.2*
Total	**163,782**	**62,983**	*100.00*	**482**	**131**	**440,000**	*14.3*
Deduct Inter Ally Loans *b*	23,658	9,100	.....	....	....	.....	.....
Net Total	**140,124**	**53,883**	.....	**482**	**112**	**440,000**	*12.2*
Central Powers							
Germany	49,362	19,316	*64.04*	61	317	80,500	*23.9*
All Other *c*	33,985	10,846	*35.96*	79	137	38,000	*28.5*
Total	**83,347**	**30,162**	*100.00*	**140**	**215**	**118,500**	*25.5*
Grand Total	**223,471**	**84,045**	.....	**622**	**135**	**558,500**	*15.0*

a Ceased to co-operate in October, 1917.
b The amount deducted in column I is the grand total of page 136, $24,963 million, less relief loans and market loans.
c Deducting $2,375 million for advances from Germany.

I. In each case the figures are for the period elapsed from the time the nation became a belligerent until the close of the fiscal year 1919 or 1919-1920. While the fighting ended with the armistice, the war expenses did not stop for several months later, as the armies were not immediately disbanded and much material ordered still had to be accepted and paid for. From the total expenses of each nation a deduction is made of an amount equivalent to the pre-war annual expense multiplied by the number of years the nation was in the war, the balance is taken to be the expenditure due to the war. The figures are from official or semi-official sources; except Russia, from Boris Eliacheff's "Les Finances de la Guerre de la Russe" and except "other Entente Allies" and "other Central Powers" which are necessarily, in some cases, very rough approximations.

II. These figures are obtained by dividing the expenses of each nation for each year, as given in Column I, by the wholesale "price index numbers" which give the prices of each year as a percentage of 1913 wholesale prices. The index numbers used were: For France, that of the government statistical bureau; Italy, Professor Bachi's number; Russia, estimated on basis of study by Boris Eliacheff in "Les Finances de la Guerre de la Russe"; United Kingdom, Statist number; United States, Bureau of Labor number; Germany; the official number.

III. Statesman's Year Book, checked by census figures where available.

IV. Sir J. C. Stamp—National Wealth and Income of the Chief Powers; Journal Royal Statistical Society, July, 1919, with some adjustments; except "all other" which are roughly approximated.

million a year on her debts to the United States and the United Kingdom, of around $801,722,000 and additional pension payments of over $300,000,000. Our United States expended $104,671,000 on veterans vocational training alone in the fiscal year ended June 30, 1921. We face an expenditure for the new veterans bureau and for vocational training of $443,000,000 in the fiscal year ended June 30, 1922, while similar expenses for the following year are estimated at $461,000,000. This is quite apart from the proposed soldiers' bonus which, if granted, will run into ten figures. Our war interest burden for the year ended June 30, 1922, was $964,000,000. Thus we find the total annually recurring burden due to the war, to the principal European entente nations and to the United States, for interest and pensions alone, expressed at exchange parities, to be about $6,413,000,000, which amount is exclusive of around $700,000,000 more accruing on inter-governmental debts.

This does not take into account the greatly increased cost of civil government entailed as an aftermath of the war. Investigation shows that following past wars such expenses have tended to establish a new level well above the pre-war basis. Every indication is that the same conditions will result in the present instance.

Chapter III

How France Financed the War

1914–1919

FRANCE financed the extraordinary expenses of the war period by borrowing in various forms.

The borrowing took three forms. The first line of financial defense was found in the Bank of France and its note issuing power. Next came the treasury bills which, in the end, proved to be perhaps the chief reliance of the treasury. Finally there were the short term bonds of national defense and the great funding loans. We will consider these in the order named.

The Bank of France

In ordinary times it is understood that the government shall not borrow from the bank, but when war comes then the bank stands shoulder to shoulder with the government. This was notably the case in 1870-1871 when the bank advanced to the state nearly 1,500 million francs, say 300 million dollars. By an agreement made in November, 1911, the bank had promised in case war ever were to break out to put at the disposal of the government for purposes of mobilization a sum of 2,900 million francs, while the Bank of Algeria had similarly promised 100 million —say, in all, 600 million dollars American money. This agreement, ratified August 14, 1914, was modified from time to time as the exigencies of the war required.

The portfolio of the bank in normal times contains only commercial bills of three months maturity at the most. It

also makes advances on collateral securities of a quickly marketable character. The affairs of the bank thus are always in a liquid condition, so that when emergencies arise it is in a position easily to cope with them.

The great resource of the bank at such times of emergency is its note issuing power. Ordinarily the notes are almost a specie certificate, as the bank always has a large specie reserve, which, while not especially "ear marked" against its note issues, is usually thought of in that connection.

Let us note here the fact that in the first five months of the war the bank advanced to the nation $753,000,000; in 1915 the advances at one time reached as high as $1,430,000,000; in 1916 they reached a maximum from the beginning of the war of $1,890,000,000, and in 1917 of $3,073,000,000, finally climbing in 1919 to an aggregate of $5,753,000,000 from the beginning of the advances in 1914. The advances fluctuated from time to time, being reduced as the treasury came into funds from sales of notes or bonds, or from revenue receipts, and increased again as the emergency required.

On the other hand the bank increased its note issue during this same period by some six billion dollars. The treasury leaned very heavily on the bank during 1914, drawing from it around 40 per cent. of its requirements. After that year less dependence was placed upon the bank. For the entire period of active war financing, that is to the end of 1919, advances from the bank constituted from ten to fifteen per cent. of the total receipts from all sources.

In addition to its direct advances to the state, the bank arranged to discount for the government treasury bonds issued to provide for loans to foreign governments. This item first appears in the bank statement for March 11, 1915;

—an item of $14,000,000. By the end of 1919 it had reached the important total of $725,000,000, thus bringing the total advances to the state and for its account at that date up to $5,653,000,000.

The bank also was a most important factor in stimulating subscriptions to the various issues of bonds and notes made by the state and in arranging international credits.

The Treasury Bills

One of the most efficient instruments for keeping the war chest filled was found to be the treasury bills, very felicitously re-named by M. Ribot, the minister of finance during the early part of the war, "National Defense Bills." The change of name was determined upon in September, 1914. The new bills were at first issued in denominations equivalent to $20, $100, and $200. At a later date these bills were issued in as small denominations as five francs and twenty francs (one and four dollars) to fit the requirements of the smallest investor, and in various larger denominations to meet the needs of banks and other wholesale investors. At first they were issued at a discount which, when the note was repaid at par, gave the bearer a return from the earlier issues at the rate of about 5¼ per cent. a year. The rate was readjusted from time to time as conditions seemed to require. On March 12, 1922, it was made 4½ per cent.

The name of the bills caught the fancy of the people and as they were obtainable every where that there was a branch of the Bank of France, from banks generally and even at the post offices, they became from month to month more popular and proved to be particularly well adapted to drawing money from the well-filled woollen stocking of the working classes. They were also sought for by the richer people and by the

banks. Thus the erst-while aristocratic treasury bills, which theretofore had only gone into the strong-boxes of the banks, achieved as "national defense bills" a nation-wide circulation and to a limited extent an international market. These bills were at first issued to mature in three or six months or a year. Later, bills of one month's maturity also were issued. Three hundred and twelve million dollars worth were absorbed in 1914. In the next year and the year following there were respectively net additions to the amount outstanding of some $839,000,000 in 1915 and $1,089,000,000 in 1916, while in 1917 the net increase was $1,345,000,000. In 1918, on November 30, the outstanding issue had increased the equivalent of $2,590,000,000 to $6,357,000,000. This amount was reduced nearly two billion in December from the proceeds of a new permanent loan. The issues steadily increased during the following year reaching about nine and a half billion dollars worth by the close of 1919; an important part of them hidden away in the homes of the people. They provided for nearly 29 per cent. of the war expenditures.

The popularity of these bills was greatly increased by the fact that the Bank of France agreed to accept them as security for loans at 80 per cent. of their nominal value. Thus they were a particularly liquid asset for people in business, either large or small, and for institutions of credit.

The Funded Debt

In February, 1915, a new form of short term bonds was placed on sale. These bonds, known as "Bonds of National Defense," had a currency of ten years and were well received, but they never achieved the popularity accorded to the bills of similar name. The first issue, bearing 5 per cent. interest,

was placed at 96½, reimbursable at par upon maturity, in 1925 or in 1920, if the right of redemption at that time were exercised. The bonds were issued free of taxation. This first issue brought into the treasury the equivalent of over $539,000,000. However, quite a large part of this amount, around $150,000,000, was received in old bond issues taken in payment. Subsequent issues were placed in 1917 and 1919.

It was not until November, 1915, that the first great war loan was offered to the public. This issue was made in what French writers speak of as the "classic form." By this they mean that bonds were issued without fixed maturity date—perpetual rentes as they are called—free of taxation and at a discount from par. The French investor, over a period of many years, had become familiar with this form of state obligation. The rate of interest was placed at 5 per cent. and the issue price at 88, or to yield about 5⅝ per cent. Subscriptions were payable in cash or in bills or bonds of national defense, or in the existing 3½ per cent. rentes, while depositors in savings banks were permitted to use their deposits in paying for subscriptions up to at least one-half of the same. In addition subscribers might pay one-third of their subscriptions in 3 per cent. rentes to be taken at 66 per cent. In offering this issue M. Ribot, the minister of finance, spoke of the bonds as "this old type of rente 5 per cent., known to our ancestors and always popular." The exemption from taxation was regarded as the *sine qua non* of a successful flotation. M. Ribot called upon the "army of French money reserves to arise and join its efforts to those of that other army at the front."

Everything possible was done to popularize the loan and to make it easy to subscribe. The books opened on Novem-

PERMANENT WAR LOANS

1915–1921

(In *francs*—000,000 omitted)

[Data furnished by Ministry of Finance]

[See chart page 20]

Permanent Loans "*Emprunts*"	Date Offered	Price	Yield	Par Value Subscribed *g*	Money Value	How Paid For: Bills *i*ND "*Bons DN*"	How Paid For: Bonds *k*ND "*Obligations DN*"	How Paid For: Old Rentes Etc.	Cash	No. of Subscriptions (000 omitted)	Maturity	Redeemable not Before	Interest Payable
*a*National Defense 5s	Nov. 25, 1915	*b* 87¼	5.73	15,205	13,308	2,244	3,181	1,598	6,285	3,130	Perpetual	Jan., 1931	Q Feb., 16
5s	Oct. 5, 1916	*b* 87½	5.71	11,514	10,082	3,693	956	8	5,425	3,200	Perpetual	Jan., 1931	Q Feb., 16
4s *e*	Nov. 26, 1917	*b* 68.60	5.83	14,882	10,209	4,580	449	6	5,174	*h*	Perpetual	Jan., 1943	Q Mch., 16
4s	Oct. 20, 1918	*b* 70.80	5.65	31,303	22,163	13,255	1,412	250	7,246	*h*	Perpetual	Jan., 1944	Q Jan., 16
	War Period Total		.....	**72,904**	**55,762**	**23,772**	**5,998**	**1,862**	**24,130**	.....			
*a*Amortissable 5s	Feb. 19, 1920	*b* 100.00	*f* 5.+	15,940	15,940	8,226	612	67	7,035	*h*	*l*		May & Nov. 1
*a*Loan of 1920 6s	Oct. 20, 1920	*b* 100.00	6.00	28,088	28,088	4,136	354	12,320	11,278	*h*	Perpetual	Jan., 1931	June & Dec. 16
	Post-War Period Total		.....	**44,028**	**44,028**	**12,362**	**966**	**12,387**	**18,313**	.....			
	3½% Loan of 1914		.....	805	732	.....	.....	.....	.....	.....			
	Grand Total *g*		.....	**117,737**	**100,522**	**36,134**	**6,964**	**14,249**	**43,443**	.....			

*a*Exempt from taxation, but in estimating income subject to income tax the income from these bonds may not be deducted.

*b*Cash; installment prices were 88, 88.75, 69.20, 71.70, 101 and 101.15.

*e*Conformably to a law of October 26, 1917, entitled to benefits of a special fund of 60 million francs a month to operate upon the market. This fund to be utilized if the market price of the loan falls below the issue price.

*f*In addition to the 5% interest on par the holder receives 50% premium when the bonds are called for payment.

*g*For amounts outstanding in 1921 see National Debt Table pages 202 and 203.

*h*Statistics not published.

*i*National Defense Treasury Bills.

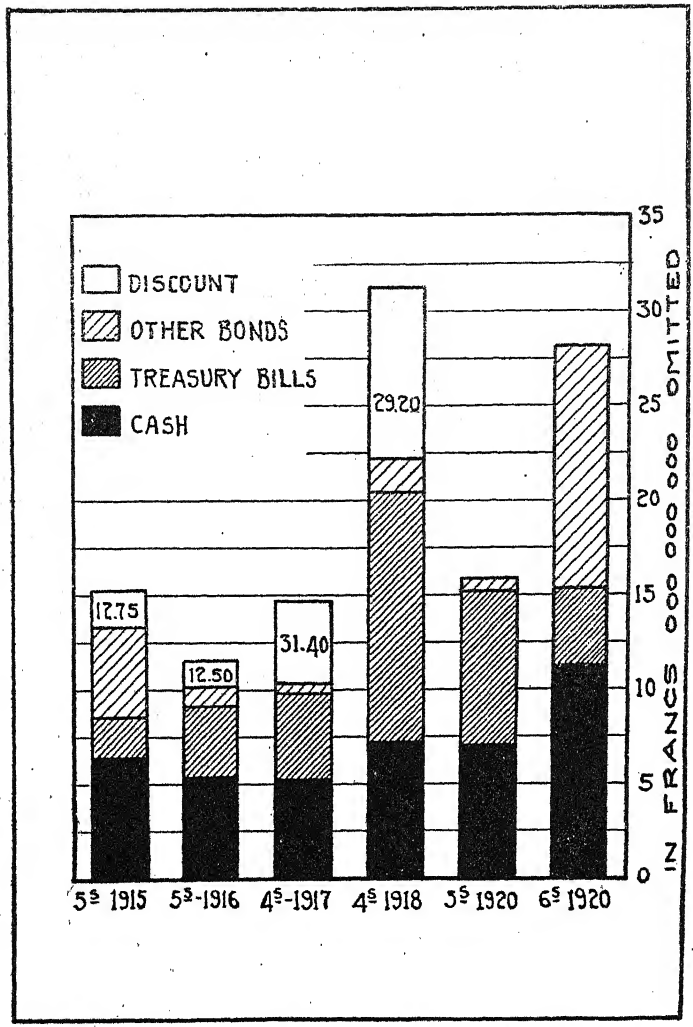
*k*National Defense Bonds.

*l*Redeemable serially by semi-annual drawings at 150%, over a period of 60 years. Drawings take place on March 16 and September 16 of each year.

ber 25, 1915, and closed on December 15. The subscriptions at par totaled $2,934,000,000. The money value in cash and securities totaled $2,568,000,000. Of this latter amount the sum of about $1,213,000,000 was in cash and the balance in securities. Thus it was possible temporarily to reduce the debit at the Bank of France by over $400,000,000, while $437,000,000 national defense bills and $614,000,000 of national defense bonds were retired. Exchanges of 3 per cent and 3½ per cent. rentes accounted for the remainder. Quite a few of the bonds were taken abroad, perhaps as many as $200,000,000 worth. There were 3,130,000 subscribers, nearly one-third of whom lived in Paris.

There were three other great loans placed during the war period aggregating at par $11,136,000,000. They brought into the treasury the equivalent of $8,193,000,000 either in cash or in other national securities.

In France, as in other countries engaged in the war, one of the main purposes of the permanent war loans was to fund the various forms of short indebtedness before they became unwieldy and thus to keep the banks, and, in France, the public as well, free to respond daily to the daily needs of the treasury. The table opposite, entitled "Permanent War Loans" and the chart on page 20 show to what extent this was accomplished and also how much new money the permanent loans brought into the treasury. This table gives the amounts of bonds originally issued. There have been many subsequent changes due to re-purchases of bonds on the bourse for government account or to the acceptance of bonds of one loan in part payment for bonds of a new loan. The amounts outstanding at the close of 1921 may be found by reference to the tables on pages 202 and 203.



PERMANENT WAR LOANS—HOW PAID FOR

Data in francs at par—Figures in "Discount" space indicate percentage of discount at which bonds were sold. See table, page 18.

Summary of Expenditures and Resources

As yet no definitive account has been published giving in complete form the expenditures and receipts of the war period, the last issue of the annual reports of the ministry of finance being for the year 1914. Therefore, for the expenses from 1914 to 1919 we are compelled to use the statements of appropriations voted from time to time by parliament and for the expenses of 1920 and 1921 and for the receipts for the entire period preliminary statements which are subject to further revision before arriving at their final audited form. We are indebted to the ministry of finance for the data used.

It is difficult to draw a hard and fast line between the war period and the post-war period as many of the military expenses due to the war are even yet in course of settlement. However, the more important expenses of the war may be said to have terminated in the year 1919.

Keeping in mind the fact that we are dealing with estimates, and not with definitive figures, we find that for the war period the expenses aggregated above forty-three billion dollars on a currency basis; approximately eighteen and a third billion on the basis of pre-war money values. This latter figure is arrived at by dividing the actual figures for each year by the index numbers of wholesale prices taken as a percentage of 1913 prices. In this way, as explained before, on page 9, we are able to adjust the figures to the 1913 purchasing power of money. The reader should bear in mind that in this paragraph we are dealing with the total expenses of the war period while in the table on page 11, we are estimating the increased expenses which the war caused France and other countries; that is the total expenditure

EXPENDITURES AUTHORIZED AND RESOURCES REALIZED

1914–1921

(In *francs*—000,000 omitted)

[Statistical data from Ministry of Finance

EXPENDITURES

Year	Debt Charge	Other Civil	War	Reconstruction	Debit Balance Special Accounts	Total
1914	1,360	2,005	6,894	4	108	10,371
1915	1,835	2,479	16,594	15	1,197	22,120
1916	3,434	2,817	26,338	345	3,904	36,848
1917	4,965	4,129	31,805	689	2,983	44,661
1918	7,189	5,482	41,370	495	2,113	56,649
1919	8,089	9,758	23,375	9,604	3,387	54,213
War Period	26,872	26,670	146,476	11,152	13,692	224,862
1920	15,201	11,855	10,286	15,709	5,092	58,143
1921	16,000	10,778	8,702	13,829	2,714	52,023
Post War Period	31,201	22,633	18,988	29,538	7,806	110,166
Grand Total	58,073	49,303	165,464	40,690	21,498	335,028

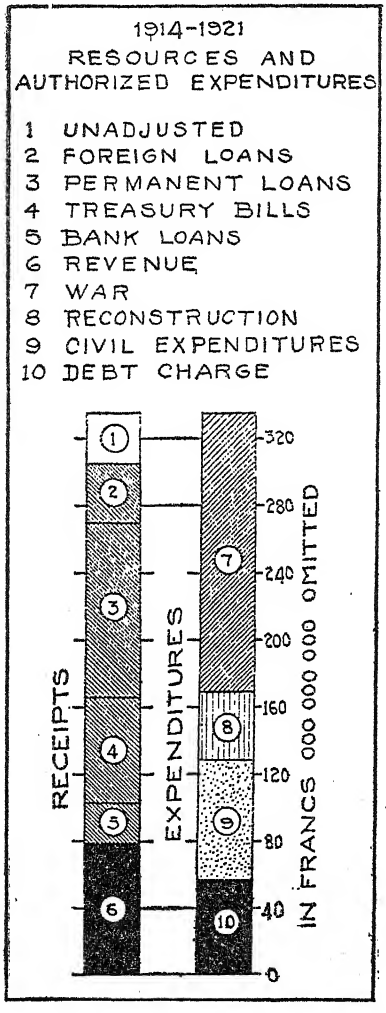
RESOURCES *a*

REVENUE RECEIPTS	
1914–1919	37,821
1920 and 1921 (viz: 1920, 19,821; 1921, 21,543)	41,364
Total Revenue Receipts	79,185
RECEIPTS FROM BORROWING TO DECEMBER 31, 1921	
Permanent Loans	104,092
Floating Debt	
Bank of France	24,600
Treasury Bills, etc.	61,741
Total Internal Loans	190,433
Foreign Loans *c*	35,563
Total Borrowing Receipts	225,996
Grand Total Receipts	305,181
Authorized Expenditure in Excess of Receipts *b*	29,847

a For details see table "Receipts From All Sources," page 31.

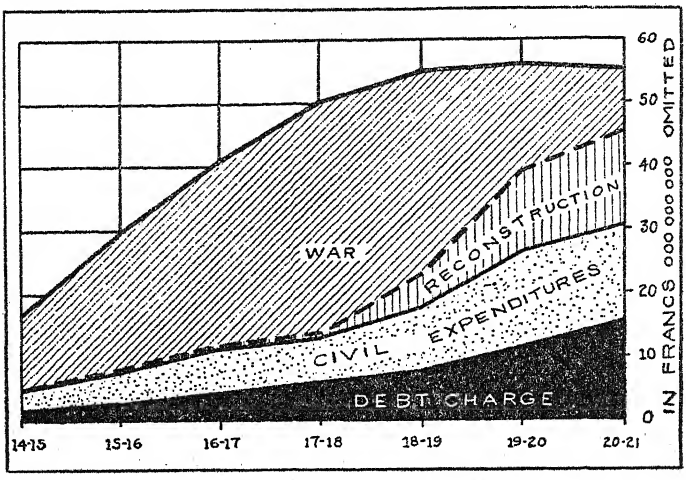
b In the absence of final data, the two sides of the account cannot be reconciled. Apparently this excess of "expenditures authorized" above "receipts realized" represents expenditures authorized but not made and for which it was therefore not necessary to provide resources.

c Francs realized at par of exchange. The nominal realization was not much greater as most of these loans were effected before the marked depreciation in quotations of franc exchange in New York and London. See pages 53 to 60.



for the period less the estimated normal expenses, based upon the expenses as they were running in 1913.

As may be seen by reference to the table on page 31, the resources with which to meet the expenditures of the war period came 18.50 per cent. from taxation and other revenue collections, 65.17 per cent. from borrowing at home and about 16.33 per cent. from borrowing abroad. Of the loans 15.27 per cent. of the amount was furnished by the Bank of France, 28.77 per cent. came from the little national defense bills and other temporary loans, 35.93 per cent. from the great permanent loans, chiefly in the form of perpetual rentes, and 20 per cent. from borrowing abroad. The table on the opposite page and the charts on this and the next page



EXPENDITURES AUTHORIZED
Annual Averages, 1914-1921

give the expenditure for each of the war and post-war years and the receipts in summary. A detailed statement of receipts from all sources (1914 to 1921 inclusive) may be found on page 31; an analysis of expenditures, on page 22 and of the revenue receipts, on page 186. The estimated revenue receipts for the general budget of 1922 are given on page 34 and the appropriations on page 35. The special budget appropriations for 1922 are given on page 36. The preliminary estimates for the general budget of 1923 may be found on pages 36 and 37.

Chapter IV

Post-War Financing

1920-1921

IN 1920 and 1921 France began an earnest effort to put her finances on a strong basis. Two noteworthy results were achieved; no further loans, that is no increased loans, were obtained from the Bank of France,—in fact such loans were materially reduced—while on the other hand revenue collections increased substantially. Expenses for military purposes while large in amount were relatively small compared to the war period expenses, being only about 17 per cent. of the expense budget as against over 65 per cent. during the war period. On the other hand the reconstruction expenses loomed up in importance calling for nearly 27 per cent. of the estimated expenses. The most striking feature was the steady growth in the debt charge, which in 1921, exclusive of interest upon the debts to the United States and the United Kingdom, amounted to 30.75 per cent. of the estimated total expenditures for the year.

Post-War Borrowing

In 1920 two great funding loans were placed. These produced, all told, the equivalent of $8,497,000,000, retiring $2,572,000,000 of short term bonds and bills and $2,391,000,000 of rentes and bringing $3,534,000,000 of new money into the treasury. The loans of 1920 introduced an entirely new feature into French public finance, that is to say each of these loans was placed at par. However, the first loan of 1920 was made redeemable at a premium of fifty per cent., the

NATIONAL DEBT—I

1914–1921

(In *francs*—000,000 omitted)

[Statistical data from Ministry of Finance]

December 31	1914 July 31	1914 Dec. 31	1915	1916	1917	1918	1919	1920	1921	Changes from July 31, 1914	Debt Charge 1914 July 31	Debt Charge 1921 Dec. 31
Funded Debt												
b Perpetual	21,922	.....	*c*32,889	*c*43,608	*c*51,278	*c*91,988	*c*88,366	*c*102,073	100,438	78,516	656	4,587
d Term	10,658	.....	*e*11,384	*e*11,139	*e*11,172	*e*11,188	*e*16,378	*e*33,307	*f*43,793	33,135	292	2,638
a Total Funded Debt	32,580	32,800	44,273	54,747	62,450	103,176	104,744	135,380	144,231	111,651	948	7,225
Annual Increase	.....	*220*	*11,473*	*10,474*	*7,703*	*40,726*	*1,568*	*20,636*	*18,848*	.....	.....	.....
Floating Debt												
Bank of France	.....	3,900	5,000	7,500	12,500	17,150	25,600	26,600	24,600	24,600	.....	738
Bank of Algeria	.....	.....	75	25	85	215	235	.....	.....	.....	.....	.....
Total Bank Loans	.....	3,900	5,075	7,525	12,585	17,365	25,835	26,600	24,600	24,600	.....	738
Annual Increase	.....	.....	*1,175*	*2,450*	*5,060*	*4,780*	*8,470*	*765*	*−2,000*	.....	.....	.....
g Treasury Bills	427	2,046	7,006	12,618	19,551	22,918	47,934	51,191	*h*60,362	59,935	.....	3,978
Other	1,181	752	140	171	211	504	1,639	1,880	2,987	1,806	.....	99
Total Treasury Bills, and other	1,608	2,798	7,146	12,789	19,762	23,422	49,573	53,071	63,349	61,741	.....	4,077
Annual Increase	.....	*1,190*	*4,348*	*5,643*	*6,973*	*3,660*	*26,151*	*3,498*	*10,278*	.....	.....	.....
Total Floating Debt	1,608	6,698	12,221	20,314	32,347	40,787	75,408	79,671	87,949	86,341	18	4,815
Annual Increase	.....	*5,090*	*5,523*	*8,093*	*12,033*	*8,440*	*34,621*	*4,263*	*8,278*	.....	.....	.....
Total Internal Debt	34,188	39,498	56,494	75,061	94,797	143,963	180,052	215,051	232,180	197,992	966	12,040

a Capital (i.e. par) values. For money realization, see tables of "Receipts from All Sources," page 31 and "Permanent War Loans," page 18.

b Includes only perpetual debt.

c Figure obtained by adding 20 billions, approximate amount of perpetual 3%.

d Includes amortizable debt and short term debt, minimum two years, including railroad issues and Crédit National issues.

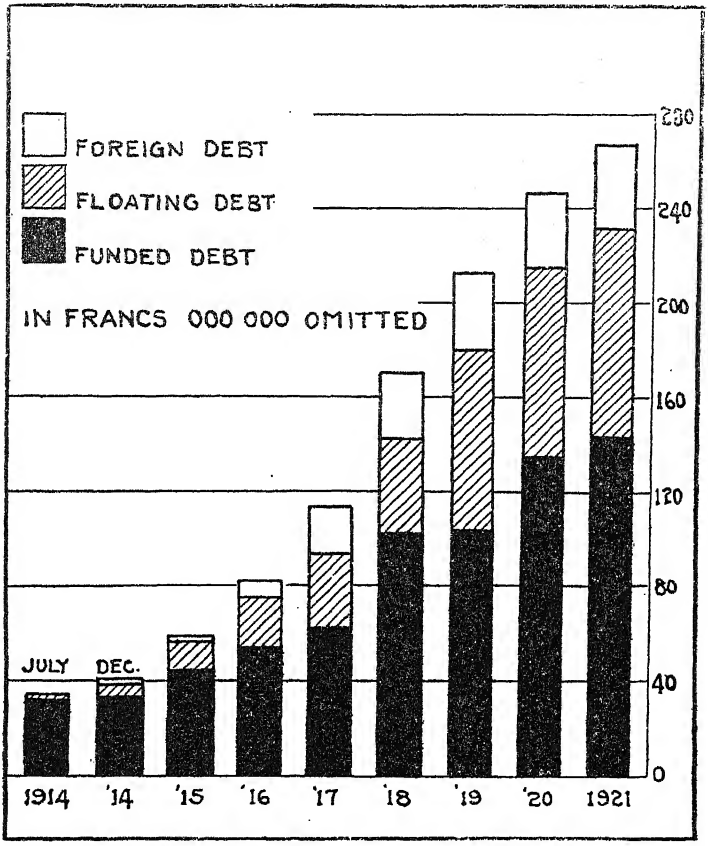
e Figure obtained by adding the amount of the term debt in 1914 to the figures showing actual situation.

f After deduction of the 5% rente 1920 amortizable and taken back on various accounts, i.e., 3,733.

g Figure includes treasury bills (*bons du trésor*) and national defense bills (*bons de la défense nationale*).

h Figure obtained by deducting from the official totals of the bonds or bills given on December 31, 1921 a sum of 7 billion francs, due to an error in accounting.

bonds being divided into series to be drawn semi-annually over a period of sixty years. The second issue, which by the way sold even better than the first, was a straight six per cent. security without adventitious aids of any kind.



THE GROWTH OF THE DEBT, 1914-1921

NATIONAL DEBT—II

1914-1921

(In *francs*—000,000 omitted)

[Statistical data from Ministry of Finance]

December 31	1914 July 31	1914 Dec. 31	1915	1916	1917	1918	1919	1920	1921	Changes from July 31, 1914	Debt Charge 1914 July 31	Debt Charge 1921 Dec. 31
*a*Total Internal Debt from Part I . . .	34,188	39,498	56,494	75,061	94,797	143,963	180,052	215,051	232,180	197,992	966	12,040
Foreign Debt												
U. S. A Nation. .	.....	.....	.....	.....	5,853	10,480	16,500	16,500	17,356	17,356	.....	.....
f Market .	.....	207	400	2,323	3,330	3,064	1,929	1,246	1,190	1,190	.....	156
Total . .	.....	207	400	2,323	9,183	13,553	18,429	17,746	18,546	18,546	.....	156
U. K. Nation. .	.....	.....	726	3,354	7,897	10,594	11,463	11,979	14,279	14,279	.....	.....
g Market .	.....	303	845	1,766	2,127	1,891	2,147	1,930	1,728	1,728	.....	101
Total . .	.....	303	1,571	5,120	10,024	12,485	13,610	13,909	16,007	16,007	.....	101
Other	.....	.....	.....	.....	196	1,453	1,541	1,215	1,010	1,010	.....	60
c Total Foreign Debt	.....	510	1,971	7,443	19,403	27,390	33,580	32,870	*d* 35,563	35,563	.....	*b*317
Annual Increase .	.....	*510*	*1,461*	*5,472*	*11,960*	*7,987*	*6,190*	*—710*	*2,693*	.....	.....	.....
Grand Total . . .	34,188	40,008	58,465	82,504	114,200	171,353	213,632	247,921	*e*267,743	233,555	966	12,357*h*
Annual Increase .	.....	*5,820*	*18,457*	*24,039*	*31,696*	*57,153*	*42,279*	*34,289*	*19,822*	.....	.....	.....

*a*Capital (i.e. par) values. For money realization, see tables of "Receipts from All Sources" and "Permanent War Loans."

*b*Exclusive of interest on loans from the national treasuries of the United Kingdom and the United States.

*c*At par of exchange.

*d*Adjusted to currency values at ratio of New York exchange in March, 1922 (9.00 cents per franc divided into parity 19.3 cents per franc = 2.144 times) = 76,247 million francs.

*e*Adding total Foreign Debt on currency basis, viz.: 76,247 million francs, to Internal Debt (as per first line of table, viz.: 232,180 million) gives as the TOTAL DEBT ON CURRENCY BASIS ON DECEMBER 31, 1921, 308,427 MILLION FRANCS = AT PAR OF EXCHANGE $51,674 MILLION; OR, AT AVERAGE EXCHANGE RATE OF MARCH, 1922, $27,758 MILLION.

*f*One dollar = 5.f18. *g*One pound sterling = 25f.22.

*h*The difference in this total from that on page 203 is chiefly that in this table the amortization payments are distributed to the several accounts, while on page 203 they are brought in at the end; also, on page 26 the gross interest on Bank of France advances is given and on page 203 the net interest, re this see page 265.

Taxation

The war period brought about some radical changes in the methods of taxation in use in France.

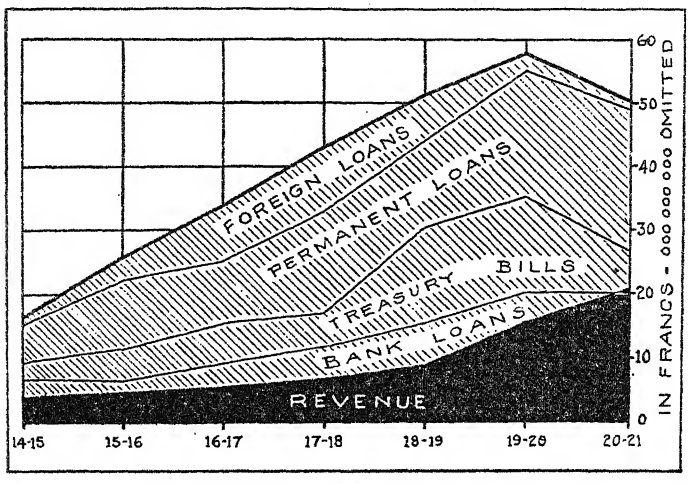
Just before the war, there was put upon the statute books the first general income tax law ever passed by parliament. This happened in July of 1914. The breaking out of the war before the machinery for the operation of the law could be properly devised and set in motion deferred the time of its effective application. It was not until the post-war period that it yielded any worth while return.

Besides this general income tax, there are in use not less than three other forms of taxing incomes. The old direct taxes on real estate have been converted into taxes on the income from real estate. The old taxes on doors and windows, trades and professions have been succeeded by taxes on the income from industrial, commercial and agricultural profits and the incomes from salaries, wages, pensions, annuities and professional activities. The old tax upon transferable securities has been made a straight tax upon the income from such securities. The actual receipts in 1920 and 1921 from these various forms of taxation of incomes were nearly three times what the old taxes to which they succeeded yielded before the war.

The war profits tax, now repealed, yielded relatively large returns.

Other new taxes have been the "special tax on payments" which was first enforced in 1918 and was in 1920 superseded by the tax on "business turn-over."

These were the principal new taxes which the war brought into being. For the rest of the added income from taxation recourse was had to increasing the rates of taxation under



RECEIPTS FROM ALL SOURCES
Annual Averages 1914-1921

certain of the old forms of imposts with which the people were familiar, namely, the registration and stamp taxes, customs duties, excise and consumption taxes. These were supplemented by the profits from the state monopolies, the chief of which are tobacco and matches. The post office, telephone and telegraph are also state monopolies but are said to have been operated at a loss.

The foregoing facts in regard to the revenues and loan receipts for the war and post-war periods have been deduced from the table on the opposite page and from the analysis of the revenue returns for each year, 1914 to 1921, inclusive, printed on page 186. It will be noted that, actually and proportionately, revenue receipts have been gaining in importance, while the receipts from borrowing have diminished.

RECEIPTS FROM ALL SOURCES

1914–1921

Statistical data from Ministry of Finance]

(In *francs*—000,000 omitted)

Year	Revenue	Loans						Total Receipts
	a Taxes and Revenue	*b* Banks of France and Algeria	Treasury Bills, Etc.	*c d* Permanent Loans, Etc.	Total from Internal Loans	Total from Foreign Loans at Par of Exchange	Total from Loans	
1914. . . .	4,196	3,900	1,190	.....	5,090	510	5,600	9,796
1915. . . .	4,130	1,175	4,348	11,845	17,368	1,461	18,829	22,959
1916. . . .	4,932	2,450	5,643	10,074	18,167	5,472	23,639	28,571
1917. . . .	6,186	5,060	6,973	10,206	22,239	11,960	34,199	40,385
1918. . . .	6,791	4,780	3,660	22,450	30,890	7,987	38,877	45,668
1919. . . .	11,586	8,470	26,151	4,898	39,519	5,990	45,509	57,095
Total War Period .	**37,821**	**25,835**	**47,965**	**59,473**	**133,273**	**33,380**	**166,653**	**204,474**
% *Loans* .	.....	*15.27*	*28.77*	*35.93*	*79.97*	*20.03*	*100.00*	.....
% *Total Receipts* .	*18.50*	*12.63*	*23.45*	*29.09*	*65.17*	*16.33*	*81.50*	*100.00*
1920. . . .	19,821	765	3,498	35,486	39,749	−510	39,239	59,060
1921. . . .	21,543	−2,000	10,278	9,133	17,411	2,693	20,104	41,647
Total Post War Period	**41,364**	**−1,235**	**13,776**	**44,619**	**57,160**	**2,183**	**59,343**	**100,707**
% *Loans* .	.....	.....	*21.14*	*75.19*	*96.33*	*3.67*	*100.00*	.....
% *Total Receipts* .	*41.07*	.....	*13.69*	*44.31*	*56.76*	*2.17*	*58.93*	*100.00*
Grand Total 1914–1921	**79,185**	**24,600**	**61,741**	*d* **104,092**	**190,433**	**35,563**	**225,996**	**305,181**
% *Loans* .	.....	*10.88*	*27.32*	*46.06*	*84.26*	*15.74*	*100.00*	.....
% *Total Receipts* .	*25.95*	*8.06*	*20.23*	*34.11*	*62.40*	*11.65*	*74.05*	*100.00*

a For items, see table page 186. The totals are somewhat different, those in this table are the later.

b Includes a very small amount relatively from Bank of Algeria.

c For proceeds of permanent loans only see table "Permanent War Loans" on page 18.

d Including loans of Crédit National, State Railways and funds coming from sale of National Defence Obligations and from two years Treasury Bonds.

The 1922 Budget

As was the case in the years 1920 and 1921, the budget is divided into two parts, first, the general budget; second, the special budget of expenditures recoverable in connection with the execution of the peace treaties. The general budget law for 1922 was passed by both the chamber and the senate on December 31, 1921, so that it came into operation for the first time in the case of a budget for many years with the beginning of the normal financial year on January 1, 1922, thus making it unnecessary to ask parliament for any "douzièmes provisoires" or monthly votes on account. In 1921 the budget law was not passed until May 1st and in 1920 it was not passed until August 1st, therefore involving votes on account for respectively four and seven months. The special budget for 1922 was adopted on the 30th of March.

General Budget: The principles which it was aimed to observe in connection with the general budget for 1922 were (a) respect for the engagements taken with regard to the terms of the loans and their convertibility features; (b) that for the future the ordinary expenditures must be met by revenue and not by loans; (c) that there should be no new taxes nor increases in the rates of outstanding taxes. From a technical point of view, the general budget for 1922 differs from those of the two preceding years in that it is a single budget; that is, it is no longer divided into an ordinary and extraordinary budget, although the transformation is more apparent than real, for among the expenditures there are still some items which are classed as ordinary and others which are classed as extraordinary, while the same is true of the receipts.

The general budget may be summarized as follows: total appropriations, 24,688 million francs; estimated total receipts, 24,702 million francs. The estimated receipts include an item of 1,320 million francs to be obtained from loans. The following tables show the estimated appropriations and receipts compared with the similar estimates for the previous fiscal year. The appropriations for expenditures are shown as follows in comparison with those for 1921:

General Budget Expenditures	1922 (Million Francs)	1921 (Million Francs)
Ordinary Expenditures	23,334	23,263
Extraordinary Expenditures	1,354	3,236
Total	24,688	26,499

The services to which these expenditures properly belong may be tabulated as indicated below:

	1922		1921		1920	
	Million Francs	Per Cent.	Million Francs	Per Cent.	Million Francs	Per Cent.
Public Debt	12,647	51.2	11,682	44	11,833	43.4
National Defense	4,224	17.1	5,821	22	5,105	18.7
Other expenses	7,817	31.7	8,996	34	10,243	37.9
	24,688	100.0	26,499	100	27,181	100.0

It may be seen that while the total estimated expenditures pertaining to national defense and civil services decrease by nearly three billion the fixed charges on the national debt increase by nearly one billion and now represent more than one-half of the total estimated general budget expenditures.

GENERAL BUDGET ESTIMATES OF REVENUE

(In *francs*—000,000 omitted)

Budget	1922		1921	
	Estimates	Percentage of Total	Estimates	Percentage of Total
A. ORDINARY RECEIPTS				
1. Taxes and revenues:				
(a) Income Taxes	2,389	12.00	1,866	10.60
(b) Other direct taxes	118	0.80	147	0.80
(c) Registration and Stamp	3,481	17.20	3,010	17.10
(d) Tax on income from securities	727	3.70	661	3.70
(e) Tax on business turn over	3,045	15.40	3,136	17.90
(f) Tax on Stock Exchange operations	34	0.20	33	0.20
(g) Customs	2,707	13.60	2,344	13.30
(h) Indirect taxes	2,686	13.40	2,569	14.60
(i) Tax on sugar and saccharine	543	2.80	433	2.40
(j) Luxury Tax	13	0.10	12	0.05
Total	15,743	79.40	14,211	80.65
2. Proceeds from Monopolies and from State enterprises				
(a) Tobacco	1,644	8.50	1,370	7.70
(b) Matches and automatic lighters	117	0.60	92	0.60
(c) Powder for shooting	41	.....	20	0.10
(d) Post, telegraph and telephone	1,086	5.40	1,099	6.20
(e) Miscellaneous	22	.....	14	0.10
Total	2,910	14.70	2,595	14.70
3. Revenue from State properties	183	0.90	145	0.80
4. Receipts "d'ordre"	798	4.10	507	2.90
5. Miscellaneous receipts	177	0.85	160	0.90
6. Receipts receivable from Algeria	11	0.05	6	0.05
Total of ordinary receipts	19,821 *a*	100.00	17,624	100.00
B. EXTRAORDINARY RECEIPTS				
1. War profit taxes	3,050	86.00	4,028	77.00
2. Liquidation of war stocks	500	14.00	1,200	23.00
Total of extraordinary receipts	3,550	100.00	5,228	100.00
TOTAL RECEIPTS (other than from loans)	23,382	.. ..	22,852	.....

a Items foot 19,832. The total in table is as per budget law.

GENERAL BUDGET APPROPRIATIONS 1922

(In *francs*—000,000 omitted)

Department	1922				1921			
	Ordinary Expenditures	Extraordinary Expenditures	Total	Percentage of Total	Ordinary Expenditures	Extraordinary Expenditures	Total	Percentage of Total
Finances:								
a Public Debt	12,647	0	12,647	51.2	11,248	200	11,448	43.5
Other expenses	1,604	228	1,832	7.4	1,556	229	1,785	6.
Total	14,251	228	14,479	58.6	12,804	429	13,233	49.5
Justice	169	1	170	0.7	144	1	145	0.6
Foreign affairs	69	85	154	0.6	69	162	231	0.9
Interior	183	61	244	1.0	167	506	673	2.6
War	2,908	518	3,426	13.9	3,135	1,327	4,462	16.9
Navy	767	31	798	3.2	832	120	952	3.6
Public Instruction and Fine Arts	1,416	13	1,429	5.8	1,295	13	1,308	4.9
Commerce and industry	19	9	28	0.1	17	9	26	0.1
Post, Telephone and Telegraph	1,341	7	1,348	5.4	1,438	10	1,448	5.5
Labor	161	0	161	0.7	167	0	167	0.6
Colonies	222	15	237	1.0	236	22	258	1.0
Agriculture	164	4	168	0.7	152	5	157	0.6
Public Works	1,326	30	1,356	5.5	2,469	421	2,890	10.9
Pensions	108	99	207	0.8	135	145	280	1.2
Public Health	231	66	297	1.2	203	66	269	1.1
Liberated Regions	.....	*b* 186	186	0.8	.....	....	.....	....
Total	23,335	1,353	24,688	100.0	23,263	3,236	26,499	100.0

a Including "dette viagere," *i. e.* the ordinary pensions.
b Not recoverable from Germany.

Special Budget: The special budget of reimbursable expenditure as voted in its final form provided for the expenditure of 10,222,652,000 francs. Owing to the uncertainty of Germany's payments on account of reparations, the parliament decided to leave the estimate of receipts blank. Whatever amount is not obtained from reparation or similar receipts will necessarily have to be provided for by borrowing; but this will be effected by means of interior or domestic loans,

principally through the medium of the Crédit National, the financial organization, established to facilitate reparation settlements. (See page 90.) The items of expenditure for which appropriations were made are as follows:

SPECIAL BUDGET APPROPRIATIONS 1922

		In *francs*
Ministry of Finance		4,663,319,464
Ministry of Justice:	Judicial Department	103,000
	Department of penitentials	720,000
Ministry of War		56,000,000
Ministry of Marine		5,000
Ministry of Public Instruction and Fine Arts:	Education	109,878,000
	Fine Arts	25,340,000
	Technical Instruction	1,046,500
Ministry of Labor		1,739,900
Ministry of Colonies		326,900
Ministry of Agriculture		10,326,900
Ministry of Public Works:	Public Works	767,874,900
	Post and Telegraph	12,455,000
	Ports, merchant marine and fisheries	4,560,000
Ministry of Liberated Regions		4,149,612,400
Ministry of Pensions		401,750,854
Ministry of Health and Public Assistance		17,594,000
		10,222,652,818

The 1923 General Budget

The proposed budget for 1923 contemplates a reduction in expenditure of 1,508 million francs as compared with the estimates in the budget for the year 1922. The budget figures for the two years compare as follows:

	Budget 1922	Proposed Budget 1923
	(in 1,000 francs)	
Revenue from normal sources	19,832,100	18,060,000
Exceptional resources	3,550,000	1,225,000
Funds to be obtained from loans	1,320,000	3,900,000
Total estimated receipts	24,702,100	23,185,000
Total estimated expenditures	24,688,000	23,180,000

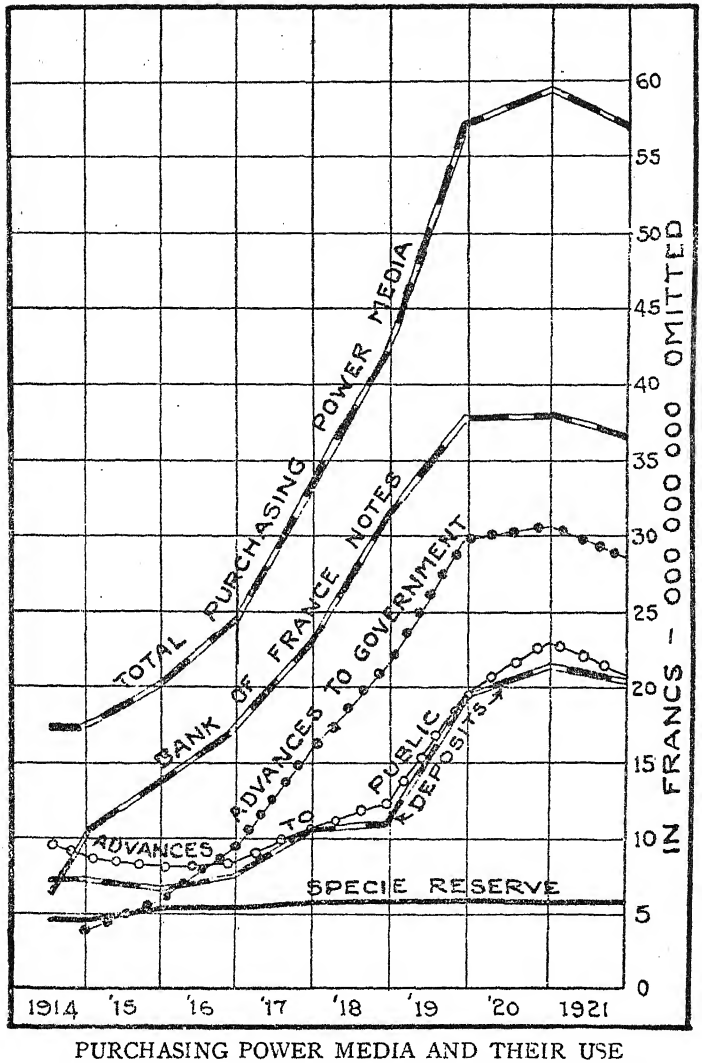
It is suggested that 3,900 million francs be obtained by means of loans in 1923, because that amount approximates the interest on the sums advanced by France down to January 1, 1922 on Germany's account for the payment of reparations to French citizens.

The amount so paid out down to June, 1922 by the French government on Germany's account for reconstruction and other purposes coming under the chapter of redeemable expenditures exceeded 80 billion francs.

The following table indicates the more important increases and reductions of expenditure contemplated in the budget for 1923:

	Increase or Decrease Compared to 1922 Francs
Posts and Telegraphs	−1,221,000,000
Public debt	− 975,000,000
Discontinuance of indemnity for high cost of living	− 154,000,000
Government expenses in Syria	− 32,000,000
Guaranty to railroads	− 25,000,000
Army of occupation in the East	+ 234,000,000
Ministry of Public Instruction	+ 139,000,000
Ministry of Marine	+ 323,000,000
Ministry of Finance	+ 128,000,000
Ministry of Hygiene	+ 85,000,000

The very large decrease of 1,221 million francs in the postal service does not mean that this amount of expenditure would be done away with, but an entirely separate budget has been made for the postal and telegraph services, which will be annexed to the general budget.



PURCHASING POWER MEDIA AND THEIR USE
Combining data for the Bank of France and Six Great Credit Companies. See Tables, pages 40 and 42.

Chapter V

The Credit Structure

1914-1921

THE credit fund by which the trade and commerce of a country is largely financed may be approximately measured by the sum of the circulating media—gold and silver, bank notes and bank deposits. Normally the foundation of this great credit structure is the specie reserve held by the central bank or banks and in the national treasury.

The Purchasing Power Media of France

There is probably no country in the world in which the loaning facilities of the banks are availed of by so large a percentage of the people as in France.

The French banks will discount little pieces of commercial paper such as no English or American bank would consider for a moment. Any small shopkeeper may borrow as trifling an amount as five francs from the great Bank of France. Instead of a portfolio, or bill-book, many "strong boxes" must be required to hold the bills, large and small, discounted by the banks of France. On the other hand, payments in settlement of accounts are made in France in specie or bank-notes to a greater extent than in England or in America and hence bank deposits are much less per capita than with us, while the per capita amount of money in circulation is much higher.

The commercial banking situation in France is largely dominated by the Bank of France and six great credit companies, which have branches in nearly every important town

in France. In addition to the very complete statements published by the Bank of France we have been able to obtain comparative statements from the beginning of the war for these six great commercial banks, namely, the Société Générale, the Crédit Lyonnais, the Comptoir National d'Escompte de Paris, the Crédit Industriel et Commercial, the Crédit Commercial de France and the Banque Nationale de Crédit, which we have arranged in two tables, one giving the purchasing power or credit media, that is to say the deposits of the banks in question, plus the deposits and note circulation of the Bank of France; and the other, giving the loans and investments, analyzed as to advances made to the government and those made to the general public. We will first examine the table giving data in regard to the purchasing power media.

PURCHASING POWER MEDIA OF FRANCE
Combining Data for Bank of France and
Six Great Credit Companies
(In *francs*—000,000 omitted)

Date	Currency	Deposits			Total Credit Media	
	Bank of France Notes	Bank of France	Six Big Banks	*d* Total	Total	Per Cent. June 30, 1914
June 30, 1914	*a*10,231	1,232	*b*5,826	7,058	17,289	100.00
Dec. 31, 1914	10,162	2,912	*c*4,184	7,096	17,258	99.82
1915	13,309	2,287	4,305	6,592	19,901	115.45
1916	16,679	2,275	5,054	7,329	24,008	138.86
1917	22,789	3,114	7,385	10,499	33,288	192.48
1918	31,055	2,426	8,456	10,882	41,937	242.58
1919	37,660	3,364	15,946	19,310	56,970	329.51
1920	37,901	3,575	17,709	21,284	59,185	342.32
1921	36,487	2,743	17,625	20,368	56,855	328.85

a Includes 4,180 million specie then in circulation and 6,051 million notes.
b Four banks.
c Five banks.
d To the extent that the six banks deposit with the Bank of France this total is excessive.

The Currency

On June 30, 1914, the money of France, apart from the subsidiary coinage, consisted of an estimated amount of 4,180 million francs of gold and full value silver in general circulation and of 6,051 million francs in Bank of France notes; in all 10,231 million francs. Against the notes the bank had a specie reserve of 4,697 million francs or 77.62 per cent.

The first effect of the war was to drive under cover the gold and silver in circulation, so that, after June 30, 1914, specie rapidly disappeared from use as money. However, quite a lot of this real money reappeared later in the reserves of the Bank of France. How this happened is told on page 43, beginning with the last paragraph.

Not only did full value specie go out of circulation in 1914, but later the subsidiary coins faded from view, to be replaced by various make-shift forms of small notes.

The place of the specie driven under cover by hoarding was taken by Bank of France notes. The increase in the amount of notes in circulation at the end of the year 1914 simply offset the specie which had disappeared. The circulation in 1915 increased about 30 per cent. to 13,300 million francs; in 1916 a further 25 per cent. was issued; in 1917 the increase was about 36 per cent. to 22,789 million; in 1918 the increase was again about 36 per cent. to over 31,055 million. Thus at the close of the war, the money in circulation was almost exactly three times what it was when the war began. The next year, 1919, saw a further increase of about 21 per cent. to 37,660 million francs. After that the outstanding notes remained fixed at about this amount, increasing a little in 1920 and then decreasing to 36,487

HOW THE PURCHASING POWER MEDIA WERE USED
Combining Data for Bank of France and
Six Great Credit Companies
(In *francs*—000,000 omitted)

Date	(1) Total Loans and Investments	(2) Advances to Government Bank of France		(3) Advances to Public All Seven Banks	
		Amount	% Total	Amount	% Total
June 30, 1914 . .	9,712	.....	....	9,712	100.00
Dec. 31, 1914 . .	12,554	3,900	31.07	8,654	68.93
1915 . .	13,890	5,831	41.97	8,059	58.03
1916 . .	17,777	9,400	52.87	8,377	47.13
1917 . .	26,593	15,925	59.88	10,668	40.12
1918 . .	33,798	21,531	63.70	12,267	36.30
1919 . .	49,151	29,810	60.65	19,341	39.35
1920 . .	53,742	30,780	57.27	22,962	42.73
1921 . .	49,677	28,742	57.85	20,935	42.15

(1) The difference between the total of loans and investments as shown in column one above and the total credit media as shown in the preceding table is almost entirely accounted for by the large specie reserve of the Bank of France which stood as follows in millions of francs, on the dates given: On June 30, 1914, 4,697; on December 31, 1914, 4,532; on December 31, 1915, 5,367; on December 31, 1916, 5,370; on December 31, 1917, 5,602; on December 31, 1918, 5,804; on December 31, 1919, 5,844; on December 31, 1920, 5,766; December 31, 1921, 5,804.

(2) Includes treasury bills discounted to provide for advances to foreign governments, viz.: 630 million in 1915; 1,800 million in 1916; 3,225 million in 1917; 3,531 millon in 1918; 3,760 million in 1919; 3,980 million in 1920 and 4,142 million in 1921.

(3) Includes a certain amount of treasury bills held by the six credit companies. The exact amount is not given in their statements.

million on December 31, 1921. The notes of the bank in circulation at the end of the year were over 3½ times the amount in circulation on December 31, 1914.

Bank Deposits

Bank deposits did not have any marked increase in volume until after the close of the war. In fact the figures show that at first the tendency was for the deposits to decrease. They were actually less at the close of 1915 than on

June 30, 1914. In 1916 there was a slight increase but in 1917 there was an increase of about 49 per cent. over June 30, 1914, to 10,499 million francs, at about which level they remained until 1919 when they grew rapidly, reaching 19,310 million francs at the end of that year. There was a moderate further increase in 1920 and a recession of about 1,000 million francs during the year 1921.

Total Purchasing Power Media

At its maximum, about the close of 1920, the money in circulation was 3.7 times what it was when the war began. The deposits increased about three times. This status had not materially changed at the end of 1921.

How the Purchasing Power Media Were Used

During and since the war the government has made heavy calls upon the credit facilities of the banks, as an inspection of the table on page 42 will make clear. It will be noted that whereas in June, 1914, the government was not borrowing from the Bank of France, by the end of year over 31 per cent. of the total loans and investments was for government account. This percentage steadily increased until on December 31, 1918, such advances absorbed 63.67 per cent. of the loanable funds of the banks.

In the second half of 1914 the Bank of France "saved the day" for the other banks by taking off of their hands their frozen credits in the form of bills and accounts receivable which could not be collected because of special laws which were passed by parliament giving debtors the right to defer for longer or shorter periods the payment of their obligations. The bills affected by the moratoria, the term by which these

arrangements were known, are estimated to have been nearly two billion francs. During the same period the bank advanced to the government 3,900 million francs. This feat of aiding both the government and business was accomplished by an increased issue of notes for 4,100 million francs and by an increase in deposits of 1,700 million francs (see table, page 40). Whether these deposits came from the banks which were aided or whether they came from the general public who carried their funds to the bank as the safest place of deposit at such a critical time, we have no means of knowing.

An inspection of the column headed "advances to the public" shows that there must have been a marked falling off in general business in the latter part of 1914 and in 1915 and 1916. It was not until 1917 that the market required, or at any rate was allowed to have, accommodations as large as those which were being granted in June, 1914.

It was really not until after the signing of the peace treaty in June, 1919, that the bank returns showed an important increase in the credits granted to business; then they reached a new level which they have since retained.

The Bank of France today has a specie reserve of about 15½ per cent. against its notes and 14.38 per cent. against its notes and deposits combined. This reserve is very mobile because it is not ear-marked for notes or for deposits but is a free asset to be used as the trained judgment of the management of the bank may deem wise.

The story of how the bank succeeded in maintaining this reserve is an interesting and impressive commentary on French thrift and the patriotism of the French people—of the workers and savers of France. In the early days of the war the bank found that gold was needed to establish credits in London and to some extent in New York, to part

with which would seriously reduce her reserves. Therefore an appeal was made to the people through the public press and other sources, the banks, public officials, notaries and the like, to bring hoarded gold to the nearest branch of the bank. For this gold the owner received bank notes and a certificate which recited the fact that he had yielded up his gold for the country's good. From the time this plan was inaugurated, until the need no longer existed, there was a steady stream of gold pouring into the vaults of the bank, which equalled or exceeded all drafts upon the gold reserves. The total exceeded two and a half billion francs. Thus French thrift vied with French courage in fighting the enemy.

Foreign Commerce

Foreign trade figures record the same general course of economic affairs as do the bank statistics, namely, first depression, then a rather gradual advance during the war period and then a sudden jump when the war was over and a stabilization of volume for some months on the new level, followed by a reaction in 1921. However, there has been a very interesting change since the war in the character of the foreign trade. During the war years and until the close of 1920 the value of the imports greatly exceeded that of the exports, but during 1921 the incoming and outgoing trade nearly balanced. In fact there were five months when exports exceeded imports. There was a large increase in imports of raw materials in December, 1921. This was taken as an indication of confidence on the part of the business community in improving industrial conditions. In the following table the figures are given for each year as officially reported, and are also adjusted for price inflation.

FOREIGN COMMERCE

*a*Special Trade 1910-1921. Actual figures and also reduced to the 1913 basis of prices

(In *francs*—000,000 omitted)

Year	Merchandise						Specie *f*		Excess of All Imports		Foreign Borrowing Par of Exchange
	Imports		Exports		Excess Imports		Excess Imports				
	Actual	*d* Basis 1913 Prices	Actual	*d* Basis 1913 Prices	Actual	*d* Basis 1913 Prices	Actual	*d* Basis 1913 Prices	Actual	*d* Basis 1913 Prices	
1910 . .	7,173	.....	6,234	.....	939	.....	16	.....	955	.....	.....
1911 . .	8,066	.....	6,077	.....	1,989	.....	177	.....	2,166	.....	.....
1912 . .	8,231	.....	6,713	.....	1,518	.....	206	.....	1,724	.....	.....
1913 . .	8,421	8,421	6,880	6,880	1,541	1,541	544	544	2,085	2,085	.....
1914 . .	6,402	6,339	4,869	4,821	1,533	1,518	749	742	2,282	2,259	.....
1915 . .	11,036	8,055	3,937	2,874	7,099	5,182	*b*—24	.....	7,075	5,164	2,807
1916 . .	20,640	11,037	6,214	3,323	14,426	7,715	128	69	14,554	7,783	2,801
1917 . .	27,554	10,517	6,013	2,295	21,541	8,222	144	55	21,685	8,278	15,152
1918 . .	22,306	6,580	4,722	1,393	17,584	5,187	55	16	17,639	5,203	6,402
1919 . .	35,799	10,028	11,879	3,328	23,920	6,700	*c*	.....	23,920	6,700	6,495
1920 . .	49,905	9,785	26,895	5,273	23,010	4,512	*c*	*c*	23,010	4,512	1,671
*e*1921 . .	23,548	6,596	21,553	6,037	1,995	559	*c*	*c*	1,995	559	*c*

a Special Trade, i.e., imports for domestic consumption and exports of domestic products.

b Excess of exports.

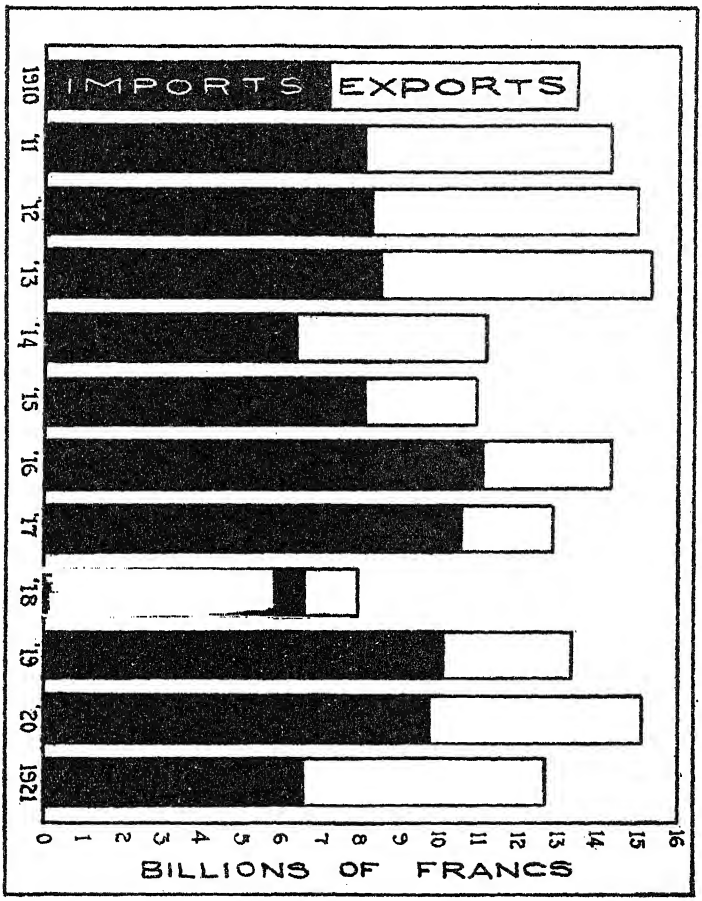
c Data not available.

d The "actual" figures of foreign trade divided by the wholesale price index number for each year expressed as a percentage of 1913 prices, as compiled by the General Statistical Bureau of France.

e The French Administration of the Customs first makes up the statistics of foreign trade by weights and then usually adjusts values for the current year at prices prevailing in the previous year. Later the figures are readjusted to the prices of the year to which the returns apply. However, on account of the unusually high prices of 1920 the preliminary foreign trade returns for 1921 were reported on the basis of 1919 prices. Therefore in making up our figures for columns "Basis of 1913 Prices" we have divided the 1921 official figures by the price index number for 1919.

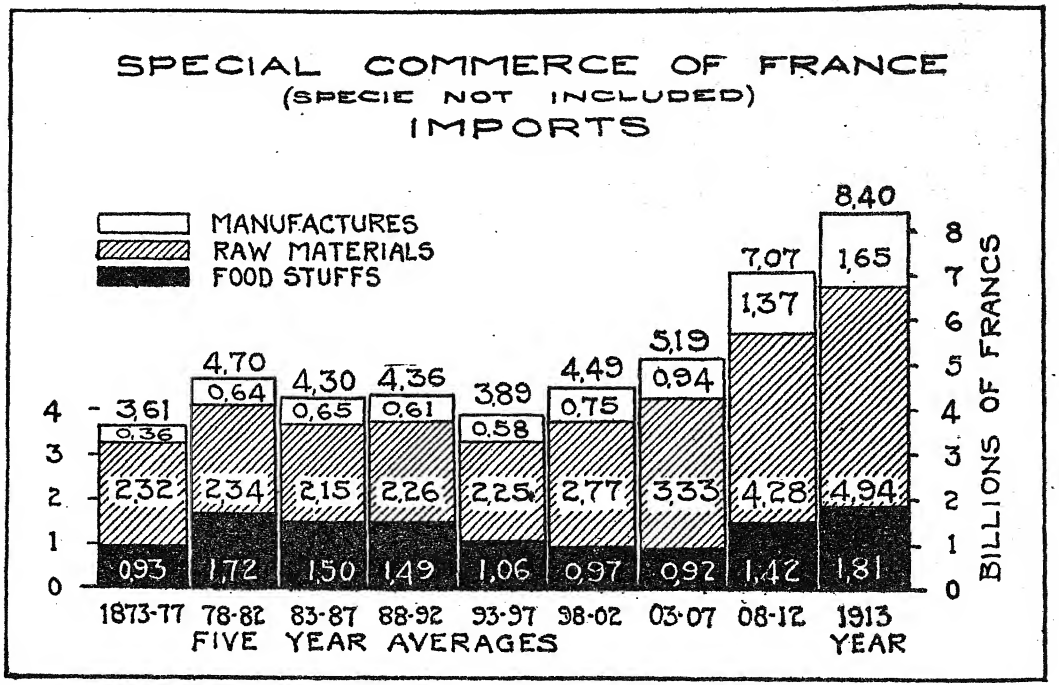
f Does not include exports of gold by the Bank of France.

Prior to the war the values as well as the volume of the imports usually exceeded those of the exports. This was because France had large investments abroad, the interest, dividends and profits from which came to her in foreign goods. France also was increasing from year to year her foreign investments.



FOREIGN COMMERCE—SPECIAL TRADE 1910-1921

Figures 1914 to 1921 inclusive adjusted to Basis of 1913 Wholesale Prices. See table opposite.


SPECIAL COMMERCE OF FRANCE
(SPECIE NOT INCLUDED)
IMPORTS
MANUFACTURES
RAW MATERIALS
FOOD STUFFS
3,61
0,36
2,32
0,93
4,70
0,64
2,34
1,72
4,30
0,65
2,15
1,50
4,36
0,61
2,26
1,49
3,89
0,58
2,25
1,06
4,49
0,75
2,77
0,97
5,19
0,94
3,33
0,92
7,07
1,37
4,28
1,42
8,40
1,65
4,94
1,81
0
1
2
3
4
5
6
7
8
BILLIONS OF FRANCS
1873-77
78-82
83-87
88-92
93-97
98-02
03-07
08-12
1913
FIVE YEAR AVERAGES
YEAR

During the war the excess of imports became very pronounced. France was then importing many necessities of life such as meat, grain, and clothing which normally she would have produced and she was also a large importer of munitions of war in the shape of raw materials as well as of manufactured goods, while simultaneously the volume of her exports necessarily was greatly curtailed.

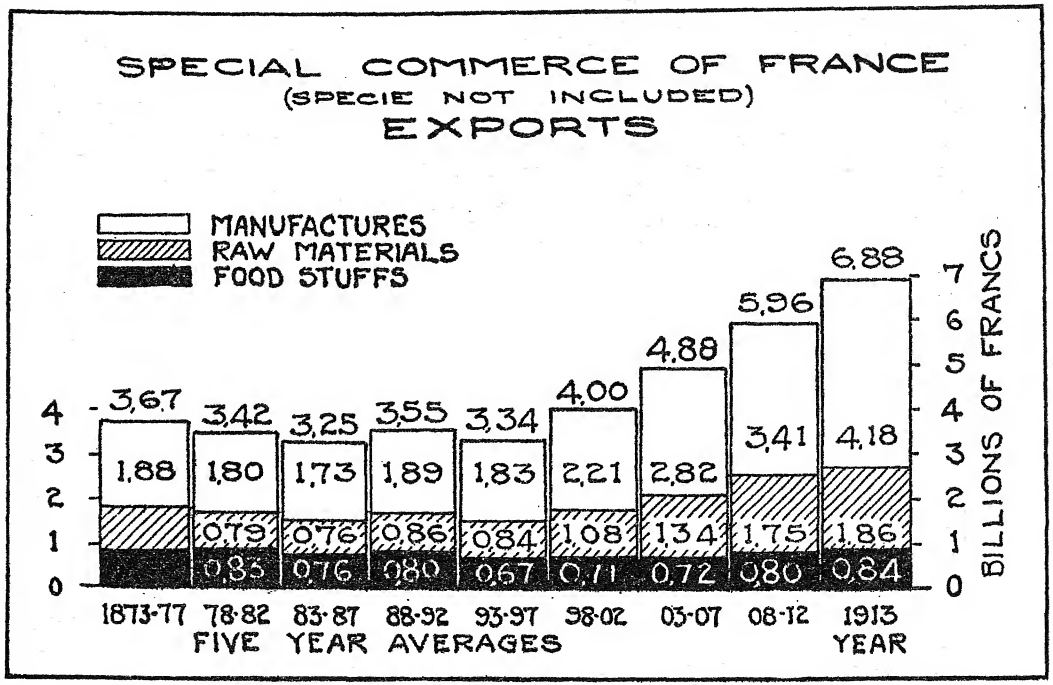
To pay for such purchases she borrowed heavily in English, American and other markets and also was a heavy seller of her holdings of foreign securities.

The following table giving the weights of imported and exported goods from 1910 to 1921 shows the shrinkage of exports and increase of imports during the war. It also brings out the fact that the volume of French exports is always less than the volume of her imports This is because France imports largely foods and raw materials, while her exports are chiefly of luxuries.

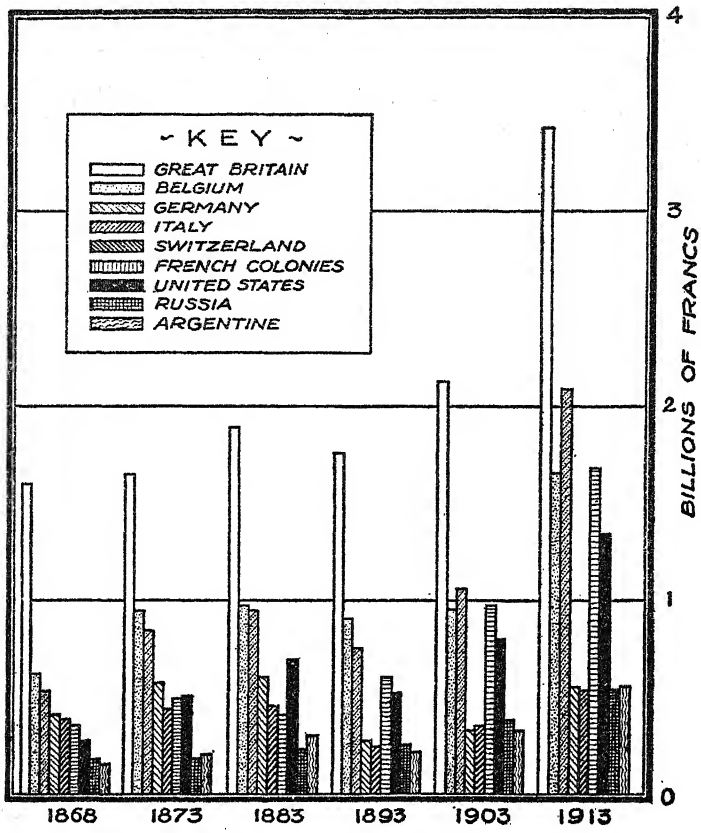
FOREIGN COMMERCE
Special Trade 1910-1921
(In *metric tons*—00,000 omitted)

Year	Imports	Exports	Year	Imports	Exports
1910	35,7	15,5	1916	40,1	3,7
1911	40,4	16,9	1917	34,8	3,0
1912	39,7	20,3	1918	29,3	3,7
1913	44,2	22,0	1919	38,4	5,5
1914	33,4	12,6	1920	50,5	12,8
1915	33,0	4,1	1921	37,9	16,0

The course of French commerce since 1868 and the fact that manufactured goods dominate the exports while raw materials dominate the imports is well visualized by the charts on pages 48 and 50:


SPECIAL COMMERCE OF FRANCE
(SPECIE NOT INCLUDED)
EXPORTS
MANUFACTURES
RAW MATERIALS
FOOD STUFFS
3.67
3.42
3.25
3.55
3.34
4.00
4.88
5.96
6.88
1.88
1.80
1.73
1.89
1.83
2.21
2.82
3.41
4.18
0.79
0.76
0.86
0.84
1.08
1.34
1.75
1.86
0.83
0.76
0.80
0.67
0.71
0.72
0.80
0.84
0
1
2
3
4
5
6
7
BILLIONS OF FRANCS
1873-77
78-82
83-87
88-92
93-97
98-02
03-07
08-12
1913
FIVE YEAR AVERAGES
YEAR

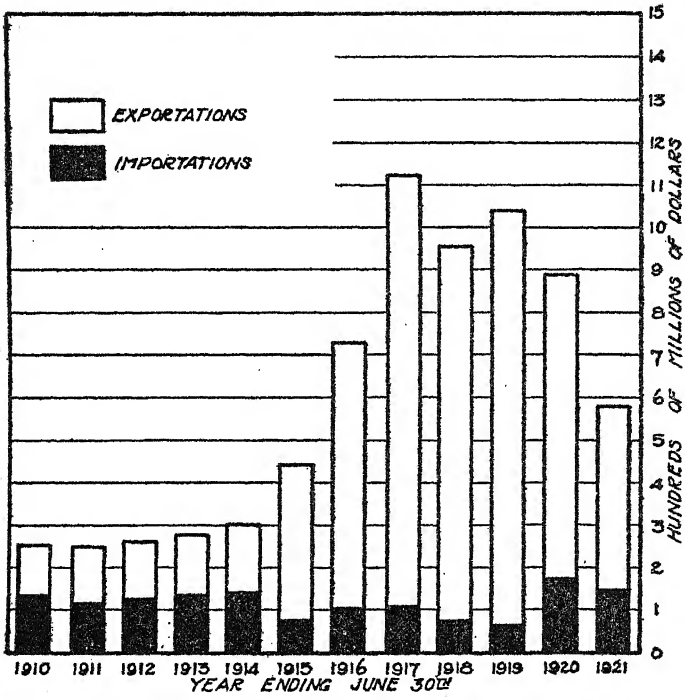
In concluding this brief review of the foreign trade of France we print a chart showing at intervals from 1868 to 1913, inclusive, the nations with which France had the largest commerce and the relative importance of their trade.



FOREIGN COMMERCE

Interchanged trade 500 million francs up

The reader will note the dominating position of trade with England, and the importance of Belgian trade and also of German trade. The trade with her own colonies was and is of growing value to France. While trade with the United States was steadily becoming greater before the war it had a tremendous growth during the war years, as is especially shown by the next chart prepared from the foreign commerce reports of the United States government.



UNITED STATES COMMERCE WITH FRANCE
Exports from and Imports into United States

The Foreign Exchanges During the War and Since

For years prior to the war London had been the clearing house for mercantile and financing transactions throughout the world.

It was largely in order to maintain this position that in September 1915, important measures were taken to stabilize English-French-American exchanges.

Unsettled political conditions in Europe subsequent to the news of Austria's peremptory ultimatum to Serbia on July 23, 1914, followed by the startling news on the 28th that Austria-Hungary had declared war on Serbia, led to tight money markets throughout the world and to weak stock market conditions. Foreign bourses were in a state of panic. London and New York were the only important open markets. They were flooded with international securities. Great quantities of American securities thrown upon the New York market caused a rise in sterling exchange to $4.94 prior to August, and to a demand for large gold exports. The credit paralysis occuring in London and on the continent following the general declaration of war between the 1st and 4th of August, 1914, threw an added strain on the New York market, and, as they had no available credits abroad, American foreign exchange houses were unable to draw. At the same time there was a very active demand by American tourists for funds to replace those which had been tied up. The purchases of people making such remittances to their relatives and friends led to small transactions as high as $7 to the pound and to 23.5 cents to the franc for cable transfers as against parities of $4.866 and 19.3 cents, respectively. Practically for the time being there was no exchange market.

All the banking centers in the world were endeavoring to obtain sterling exchange and seeking to convert their credits into sterling. The only place in the world where moratoria had not been declared was in the United States; consequently other countries were trying to use their credits in the United States to pay London. On account of the moratoria New York could not collect from her creditors but was called upon to pay her own liabilities. American bankers, realizing that the credit standing of the country depended upon its ability to cope successfully with the situation, organized a bankers committee and a gold fund of $108,929,000 was mobilized in New York in September, 1914, to be used in remedying the exchange situation, $45,000,000 of this sum was subscribed by New York bankers and $63,929,000 by banks and trust companies elsewhere throughout the United States. Another gold pool was formed in September by New York banks, to provide gold for shipment to London to pay the indebtedness of New York City maturing there before the close of the year. It was found necessary to call for only about one-quarter of the subscriptions to the first pool and for about one-third of those to the second. The mere existence of the pools served the purpose of re-assuring the markets. During October there was an appreciable improvement of the exchange situation and by the end of December, 1914, exchange became normal and then, as the demands of the warring countries for all sorts of supplies from the United States became insistent, the exchange turned in favor of New York, and by July, 1915, had reached $4.77 for sterling and 17½ cents for the franc, the lowest points ever known up to that time.

American current indebtedness abroad had then been largely liquidated and thousands of American securities from

both English, French and other overseas markets sold back to New York.

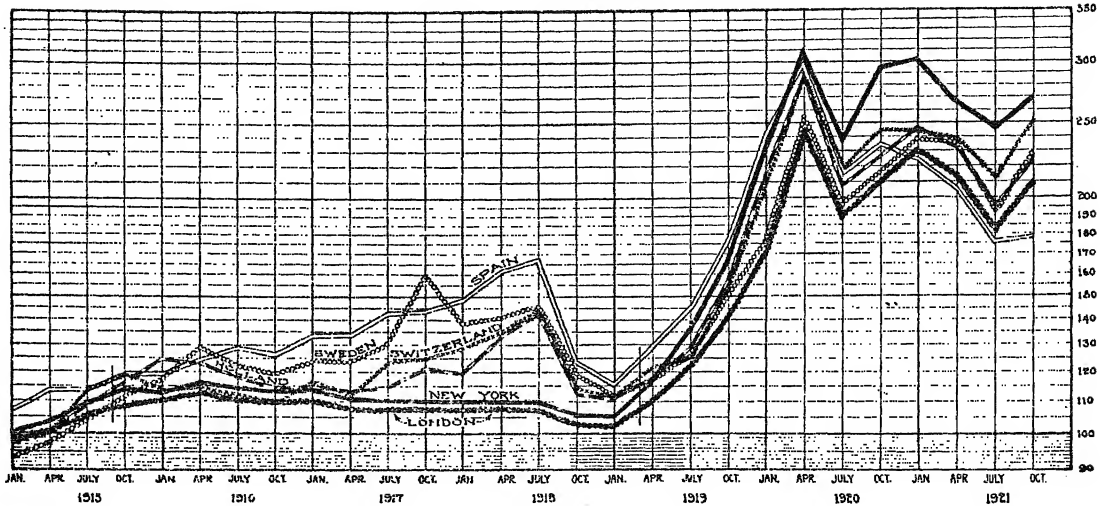
In August, 1915, the Paris correspondent of The Economist states that "the question of the New York and London exchanges continues to claim first place. The causes of the present unsatisfactory conditions are clearing up. The heavy remittances which France has to make to England and through London to the United States on account of purchases of all kinds are clearly the cause of these conditions."

Notwithstanding the efforts to meet the heavy payments due to America for munitions of war by sales of securities and of treasury bills in New York, as well as by considerable remittances of gold, the value of the pound and of the franc in that market continued to fall, reaching on September first the low levels of $4.50 and 16½ cents, respectively.

It was then that the English government arranged with their American bankers, Messrs. J. P. Morgan & Co., to "peg," or stabilize, the New York-London exchanges by standing ready at all times to furnish, at practically a fixed rate, bills required to settle for purchases made in the American markets. Automatically this arrangement had the effect of stabilizing Canadian-London exchanges and, as a result of the close working arrangements existing between the Bank of France and the Bank of England, the Paris-New York exchanges and the Paris-London exchanges were likewise brought into line.

There was nothing mysterious about the methods of carrying out these arrangements, although for some months the market was not cognizant of the fact that they had been made.

Because of the falling off in foreign exports to America there were not sufficient commercial credits available to



PARIS EXCHANGE ON VARIOUS MARKETS EXPRESSED AS A PERCENTAGE OF THE AVERAGE QUOTATIONS FOR 1913. [Ratio Chart]

By turning the page up-side down and reading from right to left one has the picture of the course of franc exchange in foreign markets.

pay for the great quantities of goods being purchased in our country and as the gold available for remittance had about been exhausted, it became necessary to create credits by borrowing in the New York market.

It was to this end that in October, 1915, France and England joined their credit to place in the New York market an issue of $500,000,000 5 per cent. bonds, the Anglo-French 5s which have since matured and been paid. This was the predecessor of many loans, none of them so large, placed in New York by both France and England during the war. Another way in which credits were created in New York was by the sale in that market of French and English treasury bills and by arranging commercial credits of a special character.

In a statement made in September, 1916, by M. Ribot, the French minister of finance, it was shown that up to July 31, 1916, 1,476 million francs had been borrowed in America and 2,315 million in England.

Stated very simply, France was paying her way in New York by direct borrowing or by borrowing through England while, in like manner, England was paying for goods purchased in America by the proceeds of loans made in American markets.

This is all there is to stabilization of the exchanges. The French and English governments were doing on a great scale what merchants, railroad companies and other corporations are constantly doing—borrowing from or through their bankers, then placing the proceeds of the loans to their credit with their bankers and paying for goods purchased by checking on these deposits.

Of course this is a big, broad generalization. There were many intricate details of banking involved in the handling

PARIS EXCHANGES ON VARIOUS MARKETS

(In *percentages* of the average quotation in 1913)

	New York	London	Holland	Sweden	Spain	Switzerland
1914						
January	100.0	100.0	100.5	.....	102.2	100.0
April	99.6	99.6	100.0	100.0	101.1	100.0
July	99.4	99.7	100.0	99.3	103.2	100.0
October	98.5	99.5	.....	.....	104.3	.....
1915						
January	100.0	99.5	100.5	93.5	107.5	98.0
April	102.7	101.0	101.0	97.8	114.0	100.0
July	108.9	106.3	108.2	104.3	114.0	114.0
October	113.5	108.8	115.9	111.5	119.4	119.4
1916						
January	112.9	110.5	124.5	117.3	119.4	113.0
April	115.6	113.0	123.1	128.8	124.7	115.0
July	114.1	111.4	117.8	121.6	129.0	112.0
October	112.7	110.1	114.9	119.4	126.9	110.0
1917						
January	112.7	110.1	114.4	123.7	134.4	116.0
April	110.4	107.9	113.0	123.7	134.4	112.0
July	110.0	107.6	114.4	130.2	143.0	124.0
October	110.0	107.6	121.2	159.7	144.1	125.0
1918						
January	110.0	107.5	119.2	138.8	148.4	128.0
April	110.0	107.6	132.7	140.3	162.4	135.0
July	110.0	107.6	141.8	146.0	167.7	144.0
October	105.6	103.2	112.5	118.0	122.6	113.0
1919						
January	105.2	102.9	110.1	112.2	115.1	112.0
April	116.0	111.0	116.8	116.5	130.1	122.0
July	135.1	122.9	127.9	125.9	145.2	125.0
October	166.6	142.9	156.7	150.4	178.5	154.0
1920						
January	230.9	172.9	217.3	176.3	240.9	212.0
April	308.1	248.5	283.7	253.2	298.9	285.0
July	239.8	190.5	208.7	196.4	214.0	219.0
October	295.9	211.4	227.4	217.3	235.5	244.0
1921						
January	300.8	231.8	246.6	239.6	225.8	244.0
April	265.4	214.0	230.3	233.0	205.4	239.0
July	246.9	184.0	195.4	193.7	176.1	212.0
October	267.1	212.2	222.8	228.6	178.9	251.6

of such great transactions, but, in the last analysis, they "boil down" to a simple credit, created by borrowing, against which was debited the cost of articles purchased.

These operations were much simplified when the United States joined in the war and placed its credit to the extent of nearly $10,000 million back of the military achievements of the allied nations, until and even after its own army and navy became effective fighting organizations.

The Period of Stabilization

The period of stabilization lasted from September, 1915, to March, 1919. Although in the twelve months prior to this arrangement the variation in quotations of franc exchange had ranged over 90 centimes to the dollar, or almost 20 per cent., yet for the forty months following, the extreme range was 30 centimes and usually the variations were very small. The tendency was slowly upward for the franc for the greater part of the time. Meanwhile the neutral exchanges were fluctuating widely and at times wildly. The table on page 58 gives the quotations of the various important currencies on a percentage basis, the average rates for 1913 being taken as 100 per cent. The chart on page 56 visualizes the exchange fluctuations.

The quotations from which the percentages are calculated are the average of the high and low quotations of the respective currencies in the Paris market at the end of each week, averaged for each month. Therefore they give the franc value in Paris of the other currencies. In studying the figures it should be borne in mind that advances in the value of the foreign currencies in Paris are equivalent to a decline in the value of the franc in the foreign markets and vice versa.

The most important facts that this table discloses can best be seen by reference to the chart printed on page 56. It will be noted that during the period of stabilization the neutral exchanges tended toward a steady depreciation in the value of the franc and that toward the end of the stabilization period, after a short time of simultaneous decline of all exchanges, they rose sharply in value in Paris, that is the franc fell sharply in all foreign markets. This movement continued until the peak was reached in April of 1920. In the following three months the foreign currencies fell and the franc improved. For the remainder of 1920 the process was reversed again. During 1921 the fluctuations, on the whole, were in favor of the franc, although there was a seasonal fall in the autumn.

Prices During and Since the War

In concluding this review of the war credit structure, it will be interesting to note the course of prices from 1914. We present the data in two tables. The first of these tables, the internal price table printed on page 61, gives for France and several other countries the index numbers of wholesale prices at home as a percentage of 1913 prices. The second column for each country gives the relative purchasing power of the currency of each country. An increase in prices is of course reflected by a relative decrease in the purchasing power of the currency. It will be noted that in all countries, except Germany, maximum prices were reached during the first half of 1920. For reasons which are patent to everyone prices in Germany continue to rise and will of course do so until the printing presses are stopped.

The change in the purchasing power of the different currencies is shown very clearly by the chart on page 63.

WHOLESALE PRICE INDEX NUMBERS
and
INTERNAL PURCHASING POWER OF CURRENCIES
Taken as percentages of 1913 values

	France *Franc*		United States $		United Kingdom £		Italy *Lira*		Germany *Mark*		Sweden *Krone*	
	Price Index No.	Purchasing Power	Price Index No.	Purchasing Power	Price Index No.	Purchasing Power	Price Index No.	Purchasing Power	Price Index No.	Purchasing Power	Price Index No.	Purchasing Power
1914												
January . .	100	100	100	100	98	102						
April . . .	100	100	98	102	96	104	96	104	106	94	116	85
July . . .	101	99	100	100	96	104						
October . .	107	93	99	101	105	95						
1915												
January . .	124	81	99	101	113	89						
April . . .	135	74	100	100	124	81	133	75	142	71	145	69
July . . .	142	70	101	99	125	80						
October . .	158	63	101	99	129	77						
1916												
January . .	179	56	110	91	145	69						
April . . .	190	53	117	85	157	63	201	50	153	65	185	54
July . . .	186	54	119	84	153	65						
October . .	198	51	134	75	166	60						
1917												
January . .	215	47	150	67	187	53	229	44				
April . . .	248	40	171	58	203	49	265	37	179	56	244	41
July . . .	268	37	185	54	208	48	304	33				
October . .	284	35	180	56	212	47	350	28				
1918												
January . .	313	32	185	54	219	46	367	27				
April . . .	333	30	190	53	223	45	407	24	217	46	339	29
July . . .	337	29	198	51	227	44	435	23				
October . .	360	28	204	49	233	43	443	22				
1919												
January . .	348	29	203	49	224	45	327	30			369	27
April . . .	332	30	203	49	217	46	330	30	415	24	339	29
July . . .	349	29	218	46	243	41	362	28			320	31
October . .	382	26	223	45	264	38	390	25			307	33
1920												
January . .	487	21	248	40	289	34	504	19			319	31
April . . .	588	17	265	37	313	32	664	15	1486	6.7	354	28
July . . .	406	20	262	38	299	33	604	16			363	27
October . .	502	20	225	44	282	35	659	15			346	29
1921												
January . .	407	24	177	56	232	43	642	15	1439	6.9	267	37
April . . .	347	29	154	65	199	50	584	17	1326	7.5	229	44
July . . .	330	30	148	68	186	54	520	19	1428	7.0	211	47
October . .	331	30	150	66	163	61	599	16	2460	4.0	175	57

Wholesale Price Index Nos. Used: France, Bureau de la Statistique Generale; *United States,* Bureau of Labor; *United Kingdom,* Statist; *Italy,* Bachi; *Germany,* Official; *Sweden,* Svensk Handelstinding.

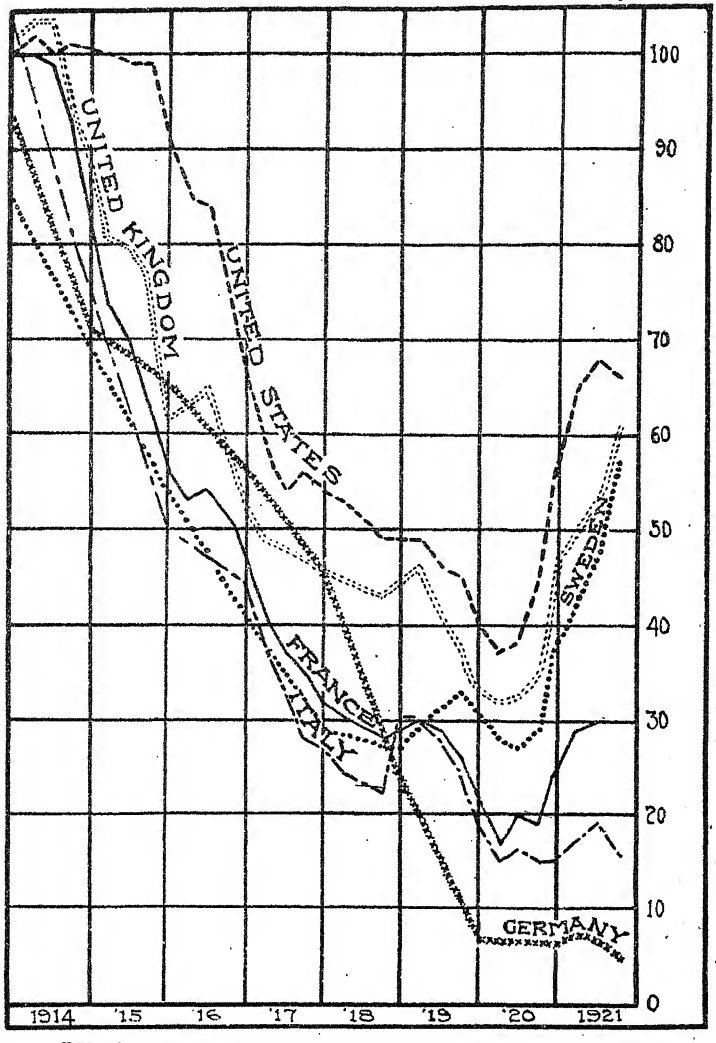
Maximum price; France, 588, April, 1920; *United States,* 272, May, 1920 *United; Kingdom,* 313, April, 1920; *Italy,* 664, April, 1920; *Germany,* 6,458, May, 1922; Sweden, 366, June, 1920.

Lowest Purchasing Power; France, 17, April, 1920; *United States,* 36, May, 1920; *United Kingdom,* 32, April, 1920; *Italy,* 15, April, 1920; *Germany,* 1.5, May, 1922; Sweden, 27, June, 1920.

The table on page 65 gives the purchasing power of the franc abroad—in New York, London, Rome, Berlin and Stockholm. This table also gives first the price index number and secondly the relative buying power of the franc. This table is constructed by taking into consideration the two factors of the internal price index number and the exchange value of the franc in the several markets under review. The fact which we have endeavored to elucidate is whether the purchasing power of the franc was greater at home or abroad—also, so far as the foreign markets are concerned, in which one the franc had the greatest buying power.

The chart on page 66 makes certain facts very clear, First of all it shows that until the end of the stabilization period the franc would buy considerably more in the United States or in England than it would at home. After March, 1919, when the pegs were drawn and the exchanges were allowed to find their own levels, the conditions were changed as the franc would buy more at home than it would in New York or London. However, on account of the relatively greater depreciation of the lira, the Italian market was a better market than their own for French people to buy in, and the sharp fall in the mark, notwithstanding the greatly increased prices in Germany, has made that market, until quite recently, at any rate, the most favorable market in which the Frenchman could buy.

As may be seen by reference to the table on page 61, giving the internal purchasing power, the franc did not fall in home purchasing power below 25 per cent. of its pre-war value except during 1920 when it touched 17 per cent. In October, 1921, it would buy about 30 per cent. of what it would buy in 1913. By reference to the table on page 65 giving the



PURCHASING POWER OF VARIOUS CURRENCIES
IN HOME MARKETS

external purchasing power of the franc it will be seen that in the American market and in London the purchasing power of the franc fell in April, 1920, as low as one-eighth of its pre-war value. The franc in October, 1921, would buy in New York about 25 per cent. of what it would buy in 1913. It would buy in London almost as much as it would at home (29%); in Italy a little more (31%); and in Germany one and two-thirds as much (51%).

An interesting fact disclosed by a further study of these tables and charts and of the table on page 40 is that prices advanced more rapidly than the increase in volume of the purchasing power media—currency and bank deposits—and that, just as the purchasing power media reached its apex, prices began to turn downward and fell sharply thereafter, when theoretically they should have maintained their advance. Declines in England and the United States were forced by somewhat drastic credit deflation, but in France we have the same downward trend of prices notwithstanding maintained inflation.

For over two years the note circulation of the Bank of France has fluctuated around 37 billion francs. In September, 1920, it got up as high as 39,207 million, rising from 36,255 million in October, 1919. Since then the circulation has gradually worked down again until on December 22, 1921, it stood at 36,226 million. Professor Cassel, the great Swedish economist, in his recent work, "The World's Currency Problems," takes the position that "the first direct aim of the monetary policy of every country must be to give a stable internal value to its own monetary standard," and, as other economists also have pointed out, he claims that the question of the prices at which commodities are exchanged for money is not of so much moment as that exchanges should be made

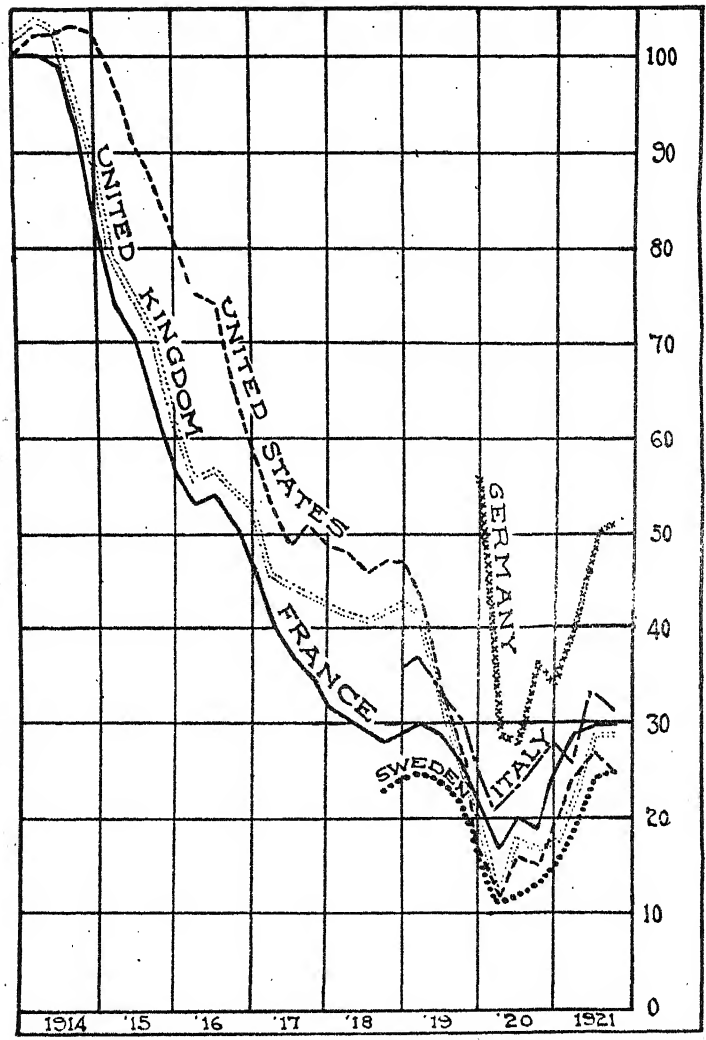
EXTERNAL PURCHASING POWER OF FRANC

In Various Markets

(In *percentages* of 1913 wholesale prices)

	In United States		In United Kingdom		In Italy		In Germany		In Sweden	
	External Price Index No.	Purchasing Power	External Price Index No.	Purchasing Power	External Price Index No.	Purchasing Power	External Price Index No.	Purchasing Power	External Price Index No.	Purchasing Power
1914										
January	100	100	98	102	....	....	....	....	....	....
April	98	102	96	104	....	....	....	....	....	....
July	98	102	97	103	....	....	....	....	....	....
October	97	103	105	95	....	....	....	....	....	....
1915										
January	98	102	112	89	....	....	....	....	....	....
April	102	98	126	79	....	....	....	....	....	....
July	110	91	133	75	....	....	....	....	....	....
October	115	87	141	71	....	....	....	....	....	....
1916										
January	124	81	161	62	....	....	....	....	....	....
April	134	75	178	56	....	....	....	....	....	....
July	136	74	176	57	....	....	....	....	....	....
October	150	66	183	55	....	....	....	....	....	....
1917										
January	169	59	189	53	....	....	....	....	....	....
April	189	53	219	46	....	....	....	....	....	....
July	203	49	224	45	....	....	....	....	....	....
October	198	51	228	44	....	....	....	....	....	....
1918										
January	203	49	235	43	....	....	....	....	....	....
April	209	48	240	42	....	....	....	....	....	....
July	218	46	244	41	....	....	....	....	....	....
October	215	47	240	42	....	....	....	....	436	23
1919										
January	213	47	230	43	278	36	....	....	414	24
April	235	43	241	42	271	37	....	....	395	25
July	294	34	299	33	297	34	....	....	403	24
October	371	27	377	26	328	30	....	....	462	22
1920										
January	573	17	499	20	418	24	180	56	562	18
April	816	12	778	13	471	21	335	29	896	11
July	628	16	560	18	429	23	360	28	593	16
October	666	15	596	17	382	26	278	36	752	13
1921										
January	533	19	538	18	359	28	287	34	628	15
April	408	24	426	23	380	26	239	40	533	19
July	365	27	343	29	302	33	200	50	408	24
October	400	25	345	29	323	31	197	51	400	25

This table is based as to method of presentation upon a table published in "Paper No. 3, Currency Statistics" prepared for the 1920 Brussels International Monetary Conference, but the calculations have been made de novo. In determining the purchasing power of the franc in other countries two factors are involved, namely, (1) the cost of goods in those countries in their home currencies and (2) the cost of the foreign currency in francs. In compiling the external price index number, the internal wholesale price index number of each country is multiplied by the exchange rate, taken as a percentage of the average rate for 1913 and the product is divided by 100.



PURCHASING POWER OF FRANC IN FOREIGN MARKETS COMPARED WITH PURCHASING POWER AT HOME

on some stabilized basis, that is to say, if all purchases and sales are made on the same basis, it does not matter particularly whether that basis is a higher or a lower one. It is the fluctuation in the value of the currency media against which goods are exchanged which causes trouble. France has accomplished one important step toward stabilization in bringing the volume of her currency under control.

The policy of the Bank of France is understood to be to return to the normal pre-war exchange gradually and slowly without violent fluctuations, but always proceeding toward the stabilization of the franc at the pre-war exchange value.

Chapter VI

Behind the Lines

1914

IN general the economic status of France during the first half of 1914 was satisfactory. Foreign commerce was large, labor was well employed, the crops of 1913 had been good and the promise was good for plenty of wine and wheat for 1914. Railroad receipts, bank clearings, and bank discounts indicated that business generally was active and, on the whole satisfactory, notwithstanding a slight recession in prices.

There were two clouds on the horizon which it was not pleasant to contemplate. One was the continued unrest in the near East and the other was the further increase in armaments which took place in the second half of 1913. These conditions had caused the continuation of the decline in security-values which had been a marked feature of all stock exchange markets since 1909.

Pre-War Finances

This situation was not helped by the fact that the estimated budget for 1914 was placed at over $1,000,000,000 as compared with expenses for 1913, then estimated at around $940,000,000, an estimated increase of over $60,000,000. To meet this increase, made necessary chiefly by the increased military estimates—the reader should not forget that the world was still on a peace basis—it was decided to make a new issue of rentes and to place a tax upon incomes and to increase other taxes. The new loan was for a par value

of $170,728,000 at 3½ per cent., sold to yield $155,365,000 cash. The other provision to meet the increased needs of the state was found in the tax on incomes. It was not until July 11 that this tax was voted with the adoption of the budget for the year 1914, six months of which had already elapsed.

The Assassination of Ferdinand

Meanwhile all financial markets were anxiously watching the course of events in Serbia, due to the tragic death at Sarajevo on June 28, 1914, by the hand of an assassin, of the Archduke Francis Ferdinand, heir to the Austro-Hungarian throne and of his morganatic wife, the Duchess of Hohenberg. While the death of the Archduke was not thought to have any political significance, yet, because of the unsettled conditions in the Balkans, and the dynastic importance of the victim, the gravest feelings of apprehension spread over the capitals of the world, and not without reason.

Public funds declined heavily, while the great banks raised their discount rates in a vain effort to steady the situation and conserve their reserves.

The Markets Collapse

The situation was so serious that as early as July 29 settlements of term operations on the Paris bourse due to be made on July 31 were deferred until August 31 and the same steps were taken in the open market.

The news from Paris on July 30 was that the securities market had completely collapsed. In fact, three days before, there was "such a rush of sales that all markings crumbled away." The fall of the rente was unprecedented, interfering

with settlements on account of the recently issued loan and embarrassing the state treasury. Gold disappeared from circulation and the banks were thronged with people anxious to withdraw their money. Business in foreign exchange was completely disorganized and discount rates advanced from 3½% to 4½% and rates on collateral loans from 4½% to 5½%. The coulisse or "curb" market was closed, but the great exchange nominally was still open.

To ease the currency situation, the Bank of France immediately arranged to issue 20 franc and 5 franc notes and, to protect the savings banks, provision was made that not more than 50 francs could be drawn every two weeks by any one depositor.

These happenings all occurred in the last days of July on the mere rumor of war. On August 1, the German army invaded France and war had begun.

The First Financial Steps

Economic events followed each other as rapidly as did political and military events. On August 1 a decree was issued ordering a thirty days moratorium, that is a prorogation of the dates of payments, for commercial notes and for protested paper.

Bank depositors might not draw more than 5% of their total deposits, except when the deposit was under 250 francs or where the money was needed for pay-rolls.

Subscribers to the recent government loan were offered inducements to anticipate deferred payments. A further provision in regard to operations on the bourse was that stocks must be delivered within forty-eight hours, the broker to be penalized for failure to deliver. This provision was evidently intended to curb speculative transactions.

The First Eighteen Laws

An extraordinary session of parliament was called for August fourth. At this session, without discussion, there were passed eighteen laws to facilitate the conduct of the war, of which the most important were the laws opening war credits, giving the families of men called to active service a daily allowance of 1 franc 25 centimes (about 25 cents), with an extra allowance of 50 centimes (10 cents) for each infant; giving the Bank of France and the Bank of Algeria the right to increase their notes; declaring France and Algeria to be in a state of siege (this made it possible to dispense for the time being with the ordinary civil processes and to conduct the affairs of the country on a more or less arbitrary basis); giving the military the right to requisition food and lodgings and establishing a censorship of the press.

On the sixth of August the Bank of France discontinued publishing its weekly statements.

The Conscription

The conscription of all men capable of bearing arms, up to the age of forty-seven, brought about economic changes of the greatest importance, as it deprived almost every family in France of its normal bread winner. Mildred Aldrich tells us in her "A Hilltop on the Marne" how this affected one little district. She says, "Our little commune sent two hundred men only, but to take two hundred able-bodied men away makes a big hole and upsets life in many ways. . . . Really I don't know which are the more remarkable, the men or the women. . . . It is harvest time, you know, just as it was in the invasion of 1870." Then she tells of the women in the grain fields, harvesting, helped by old men of seventy,

working cheerfully from sunrise to sunset, some of them starting their own work at three in the morning, so as to be free to go into the fields later in the morning.

Emergency Economic Measures

To help the food situation, the government suspended import duties on wheat, barley, oats, corn and hay, and authorized the free importation of frozen meats and potatoes, and prohibited exports of foodstuffs. The exportation was prohibited, also, of all classes of materials which would be useful in the conduct of the war.

New Currency Provisions

To meet the need for small change which became more acute as time went on, because of the hoarding of silver as well as gold, while the Bank of France notes were of the relatively large denominations of five francs and upwards, the chambers of commerce throughout France arranged to issue notes of 50 centimes (10 cents), one franc (20 cents) and two francs, against a deposit of 50 and 100 franc notes with the Bank of France. However, the Paris chamber of commerce did not make such issues until 1919, so that the requirements for small change were frequently met in Paris by making small packages of postage stamps of varying denominations, which were accepted practically everywhere. The chambers of commerce notes, except those of the Paris chamber of commerce which circulate everywhere, are only valid in the district where issued. As time elapsed they became very much worn and dirty, until finally, in 1921, provision was made for their withdrawal when a sufficient number of new metallic token coins, also to be issued by the chambers of commerce, could be provided to take their place.

The Securities Market in 1914

On account of the adjournment of the settlement on the bourse on July 31 the capital used in carrying over transactions became immobilized. The bourse was closed on September third. In December the members of the bourse (Chambre Syndicale des Agents de Change) offered to pay 40 per cent. on account. This made it possible tentatively to adjust the accounts and to reopen the bourse for trading in a limited way. The settlement was not completed until September, 1915. The adjournment of the settlement caused great inconvenience to the banks and was one of the principal reasons for the moratoria referred to in a subsequent paragraph. The reopening took place on December 7, 1914. At first only cash transactions were permitted. It was remarked as a favorable indication that the price for three per cent. rentes had declined only 10 points, viz.: to 72½ from 82½ on July 30. The volume of transactions during the month was small and the fear of a big rush of selling orders was not realized.

The Industrial Situation in 1914

The immediate effect of the war on the industries of France was temporarily to paralyze them. The mobilization of workers, the moratoria tying up working capital, the breaking down of the foreign exchanges and the dislocation of transportation all worked together to make it next to impossible to carry on industrial undertakings and seriously hampered merchandizing. The immediate result was to throw many people out of work, for although some three million men had been mobilized there were perhaps three or four times that number of male and female operatives who were

deprived of employment. Of course this was all changed a little later when the factories became busy turning out munitions. To meet this earlier situation the government created a national unemployment fund to supplement the funds of the various workingmen's organizations for mutual aid which are an interesting feature of French industrial life.

At the close of the year the industrial situation was a mixed one. For example, the leather trades were working overtime making shoes, harness and other leather goods for the army, while the silk trade was absolutely dead, the offices and factories closed. The wine harvest was unusually good, but the beet-sugar industry was practically ruined, because of the German occupation of the northeast districts where the sugar is produced. The wheat harvest was only fair. The metal trades had not yet felt in any marked way the stimulus of war requirements.

Toward the end of the year it was deemed possible to make some modifications in the regulations in regard to the moratoria and the banks, under the leadership of the Bank of France, became more liberal in the treatment of their customers, discounting more freely and also loaning very liberally upon securities.

Thus with the banks, the bourse and general business once again upon a somewhat normal basis, there was a better feeling among business men.

Chapter VII

Life and Business Under Government Regulation

1915-1920

INSTEAD of tracing, chronologically, the course of events in the years subsequent to 1914, it will probably be more to the purpose to consider topically the happenings of those years back of the firing lines.

Food Regulations

It was a favorite saying of Napoleon that "an army marches on its stomach." It is no less true of a nation that to insure the orderly and peaceable pursuit of its vocational life it must be fed. Therefore, as we have already seen, one of the first acts of the government was to remove restrictions on imports of food.

France is primarily an agricultural community. Normally a large percentage of the food consumed by the French people is produced at home. For years, before the war, the French grower of beef, mutton and other meat foods had been protected from the competition of foreign meat products by drastic legislation prohibiting their importation. France even had no cold storage warehouses for meat products. Early in 1915 the war office was authorized to obtain frozen meats for the use of the army, but only small quantities were allowed to reach the civil butcher.

By 1917 French herds of cattle had fallen from a normal stock of 16 million head to 12½ million. Steps were then taken to restrict somewhat the use of meat by closing the butcher shops early in the afternoon and by forbidding any

meat being served for the evening meal in hotels and restaurants on Sundays.

These provisions not being effective in reducing consumption, two meatless days were instituted, with exceptions in cases of illness and of the army. These restrictions were soon removed, but, in 1918, it became necessary to institute, for a period of about six months, a regime of three meatless days a week and carefully to regulate the methods of butchering and sale. The advance in market prices helped very much to restrict consumption in this and in subsequent years. The people learned to do without so much meat as they had used in pre-war days, substituting fish and using other foods in greater proportions.

The regulations in regard to bread and the cereals from which bread could be made, were multifarious and constantly changing. It was their purpose to guarantee an adequate supply of nutritious bread at prices not too high for the means of the poorer people, who in France and other continental countries literally find in bread "the staff of life."

Similarly, there were special regulations governing the use of dairy products and of fats. It was found necessary to restrict severely the use of sugar, for France was not only called upon to suffer a great reduction in production of sugar but, with the rest of the world, suffered from the general dislocation of the sugar trade.

In the effort to have the supply of foods of all kinds equal, not to the normal demand, but to actual requirements for the support of the army and of the civil population, there were many special regulations, vexatious but probably necessary, in regard to the character of the meals and the amount of food which might be served in restaurants and hotels and as to the hours during which public eating places could be open.

Menus were subjected to official inspection and control. These restrictions were especially pronounced during 1918.

After the armistice the restrictions on the use of food, found necessary before then, were gradually removed.

The Liquor Trade

More with a view to promoting order than for any other reason, the use of absinthe was absolutely forbidden as early as 1914. The annual consumption of absinthe was estimated to be over 3¾ quarts per capita, a startling figure when the fact is borne in mind that the use of absinthe was practically confined to about a quarter of the population.

Steps were taken to limit the sale of alcohol. A bill was then passed by parliament dealing with the drink question which reversed the usual procedure in France in attempting to enforce instead of following a change of public habits. Its provisions fell into two categories, one prohibiting absolutely the consumption of certain alcoholic beverages and the other attempting to control the opportunities for drink in certain industrial areas. Prohibition of alcohol fell under the first head. Under the second fell the prohibition of any new drinking places for the sale of spirits or liquors, the premises in question being those selling for consumption on the spot without food—in other words, public houses. The removal of an existing drinking house within a radius of 650 feet by an owner or his heirs was not to count as a new opening.

The measure was taken to insure order and the prompt and effective manufacture of munitions of war.

Fuel and Light

Another department of life, affecting all classes of the population, in which the government intervened was that of

coal and its related or derived commodities, oil, gas and electricity.

Under normal conditions, before the war, France consumed some 60 million tons of coal annually of which amount about one-third was imported.

The war somewhat reduced these requirements, but at the same time cut off the supplies theretofore obtained from Germany and from Belgium, while, after the mines of the north of France fell into German hands, the supply therefrom was also lost.

To aggravate the situation, as the war progressed, the demand for coal increased. To meet this combination of a diminished and diminishing supply and of an increasing demand the government at first tried fixing the price of coal and restricting its use, and the use of gas and electricity.

The situation became so serious in 1917 that the government decided to take over the domestic coal supply and also the imported supplies; coal to be sold thereafter at uniform rates according to quality. Distribution was placed under the supervision of a special bureau in the Ministry of Supplies. A few weeks later a special Ministry of Coal was created. Arrangements were also made to facilitate the importation of coal from England by making payments through the Bank of France at a fixed rate of exchange.

Other Cases of Government Control

Government control was also felt in other departments of life. For instance, in the supervision of transportation, to save fuel and to keep the tracks and equipment free for use of the army; in supervision of industrial operations; in supervision of places of amusement, with a view to reducing the number in use on any one evening, this again to save fuel.

Then the government intervened in connection with ocean freights, through a maritime transport committee.

Through the chambers of commerce purchases for the needs of individual localities were carried out. For instance the chamber of Marseilles was granted 10 million francs by the government to buy wheat and flour abroad and to sell them at cost price. Nantes in the same way received 7½ million francs, Brest four, Dunquerque five and so on.

Every effort was made to stimulate the people to live economically. This was done for two reasons, primarily to save food, clothing and fuel and again to save money so that these savings might be loaned to the government for the conduct of the war. To assist in these economies bread cards, meat cards and fuel cards were introduced.

It was not until late in 1920 that these restraints upon the usual mode of living were finally removed and business in commodities permitted to resume its normal course. The uneconomic practice of "grants" and "subsidies" was then abolished, the price of bread was raised to correspond to the price of wheat, and railway and postal rates were advanced with a view to putting them on or nearer to a paying basis.

The Moratoria

Not only did the government tell the people what they could eat and wear and when they might attend the opera and when a "movie show", how much fuel they might use, how much light they might burn, when and where they might travel, but they were also permitted on the one hand to defer the payment of debts and of rents and on the other were forbidden to collect moneys due them if the debtor was unable to pay.

In the past, at times of special political or economic stress, moratoria had obtained. In 1814 following the Napoleonic wars; in 1839 a year of political and social unrest; in 1848 when the July monarchy was superseded by the Second Republic; in 1856, because of great floods destroying life and property and interfering with the normal course of trade and in 1870 because of the war with Prussia. Except that of 1870 these moratoria were of short duration. They were of two kinds, that of a system of delay of suits or protests and that of an extension of the date of payment. The moratoria of the great war combined these two systems. In their inception they were as follows:

1914

July 29—The bourse settlements.

July 30—Savings banks were forbidden to pay out more than fifty francs per fortnight to depositors.

July 31—Commercial bills.

Aug. 1—Banks.

Aug. 5—Forced circulation of bank notes.

Aug. 9—Combination moratorium for commercial paper and bank deposits, with added clauses for loans, especially advances on securities, and commercial debts not in the form of definitive maturity.

Aug. 10—Law suits.

Aug. 14—Rents.

Aug. 29—Coupons on securities.

Sept. 23—Interest and dividends.

Sept. 27—Insurance.

The bourse began to resume its responsibilities, in a measure, in September, 1915. In December, 1914, the banks took the initiative in freeing themselves from the benefits of the moratorium.

The moratoria were extended from time to time. It was not until December 28, 1920, that a decree was issued pro-

viding for the gradual termination of these arrangements. The "frozen credits" of the Bank of France were at their maximum at the close of 1914 when they amounted to $670,000,000. By the end of 1915 nearly 40 per cent. of them were liquidated. At the time of the armistice about a third remained unpaid. After that they ran off quite rapidly, only a negligible balance being still unpaid in July, 1921.

While the moratoria were especially justified in France because of the large number of business men and heads of families serving in the army, yet they were a great handicap to business and worked real hardship to many creditors, especially to owners of property. Not receiving rents, they in turn could not pay their bills and so the vicious circle ran its course adding to the trouble which it aimed to cure. Considering that the net product of house rents alone in France amounts annually to $540,000,000 it will readily be seen why this special consideration given to lessees was so burdensome not only to lessors but also to a large circle of tradespeople as well.

Price Regulation

The war had hardly begun before steps were taken to regulate the prices at which food particularly, but also other commodities, could be sold. As early as the third week in August, 1914, special committees of tradespeople were formed to fix maximum prices for meat, groceries, and flour. In the following year the government took the matter in hand. The minister of public works declared in August, 1915, that no further rise in the price of coal would be permitted. Then in October or November the minister of the interior gave to mayors and prefects the privilege of fixing prices, especially of bread and flour. In Paris the prefect of police constituted

a commission on prices which was to draw up a weekly list of prices, wholesale and retail, to be conspicuously posted in all places of business where the commodities affected were sold.

Late in 1915 parliament took up the matter, putting laws on the statute books which permitted the government to apply drastic measures to prevent too great rises in prices.

The measures instituted by the government thereafter were varied, ingenious and for the most part ineffective in combating the inexorable laws of economics. Of course where the government saw fit to establish fixed prices, as it did for bread and coal, and to absorb the loss which resulted from buying at higher prices, the consuming public benefitted. However, as on the average the losses exceeded the profits, the general treasury had in the end a heavy loss to absorb. Exact figures are not available, but in 1920 were stated to be around $1,200,000,000. Thus, in these cases, the increased cost of living was transferred from the immediate consumer to the taxpayer.

Foreign Trade

Foreign trade during the war period was greatly hampered by restrictions necessarily imposed to prevent French goods passing to enemy aliens through the media of non-combatant nations. The government intervened also to reduce the importation of articles of luxury and to facilitate the importation of articles of necessity, such as coal, and of munitions of war or of raw materials to be used in their manufacture. After the armistice these restrictions were gradually removed.

Export of Capital

In 1918 a law was enacted controlling the export of capital and the import of securities. In the latter part of 1919 the

minister of finance stated that the law had worked very smoothly and that the necessary procedure had been very rapidly understood and appreciated by the banks and the trading community. General authorizations to export capital for the purchase of goods to be transferred to other countries had been largely renewed after careful investigation, while capital was also being permitted to be exported to enable the exploitation of French concerns abroad. In certain circumstances owners of shares in foreign companies had been allowed to export funds in order to safeguard their interests. In countries where it had been considered desirable that the export of French capital should be authorized for financing foreign enterprises, it had been stipulated that shares corresponding to this capital should be imported into France. Special care was taken to see that securities stolen by the enemy in Belgium and northern France and that German notes or money should not be brought into the country. A regulation forbidding travellers to export more than 1,000 francs ($200.) in Bank of France notes had been maintained, except in special cases on economic and financial grounds, but a regulation prohibiting the exportation of Russian or United States bank notes had been withdrawn.

Chapter VIII

Devastation and Reconstruction

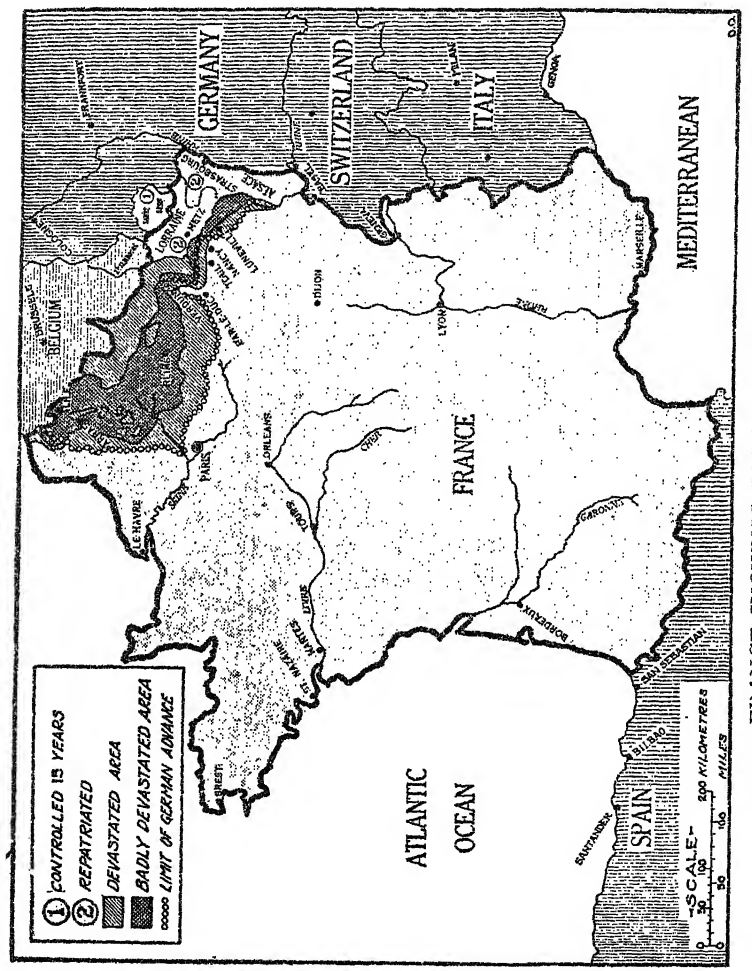
1914-1921

HOW completely the Germans carried out their plans for ruining French industries we have been graphically told by many observers who have visited the devastated sections of France since the German army withdrew. They tell us that it is necessary to recollect that there are, roughly speaking, two sorts of devastation in the area which the Germans, at one time or another, overran, each kind introducing a distinct problem in reconstruction and which required handling in a distinct manner.

The Zone of Complete Destruction

As shown by the map on page 85 there was a zone of practically complete destruction. This started at the English Channel, in the northwest corner of France, winding in a band of varying depth all the way across the country to the Swiss frontier. On an average, it was perhaps five miles deep. This band followed the "old front line." Over the departments of Pas-de-Calais, Nord, Somme, Aisne, Marne, Meuse, Meurthe-et-Moselle, and Vosges, it cut a hideous gash. It should be borne in mind that these were among the richest industrial departments of France.

For months at a time large sections of this line remained stationary; that is, there was no important action, but a rain of high-explosive shells descended unceasingly upon it, so that everything that stood above ground was sooner or later blotted out. Whenever a big offensive took place, such as the



FRANCE SHOWING DEVASTATED AREA
Also Repatriated Alsace-Lorraine (2) and Saar Basin (1)

allied advance at the first and second battles of the Somme and the unsuccessful German attack on Verdun, the zone of destruction was widened and deepened. This area of wholesale destruction included an important section of the French coal fields, of which Lens was a center. It also comprised several hundred square miles of fertile land in the departments of the Somme and Aisne, with all the towns and villages that dotted them, as well as the former populous cities of Arras, Douai, St. Quentin, Cambrai, Laon, Soissons, Reims, and Verdun.

Damage not so Great in Second Zone

Between this zone, over which the battle swayed for more than four years, and the Belgian-Luxemburg frontier there is a section, shown lightly shaded on the map on page 85, which, while it was occupied by the Germans for four years, was not, generally speaking, fought over. Consequently, it was not damaged to the same extent or in the same devastating way. The area in question contains the cities of Lille, Roubaix, Tourcoing, Armentières, and Valenciénnes—all important industrial centers. It also comprises a part of the coal-mining field as well as an important steel-making district. This area was, in fact, the most highly organized industrial region in France.

It suffered damage in two ways. Cities were bombarded during the German retreat in October, 1918. Except in a few cases, like that of Valenciénnes, the resulting injury was not irreparable. The most serious damage suffered by this region was by reason of the systematic pillage and the wanton, deliberate destruction carried out by the Germans during their four years of occupation.

Conditions Resulting from German Pillage

To illustrate: In the vicinity of Valenciénnes there are a number of coal mines. Until the final German retreat they were kept in more or less continuous operation. The Germans, just before their departure, blew up with dynamite the hoisting apparatus and power plants.

Steel works, metal-working establishments, chemical works, breweries, and sugar refineries were the special target for German destruction in the occupied area. After stripping them of their machinery in a search for metals, the invaders blew up the buildings. This condition prevailed over a large area.

The Extent of the Damage

The devastated area covered approximately 6,000 square miles or about three per cent. of France. The population of this area at the time of the war was about 2,000,000 or only about five per cent. of the people of France. However, when it is remembered that within this limited area lay the section of France from which came 14 per cent. of the wheat produced, 47 per cent. of the sugar, 55 per cent. of the flax, 74 per cent. of the coal, 92 per cent. of the iron ore, 81 per cent. of the iron, 60 per cent. of the steel, 80 per cent. of the wool products, and 70 per cent. of the cotton products, then the seriousness of the situation becomes manifest.

The Money Value of the Losses

The official estimate placed before the allied reparation commission by the French government of the property losses which the country sustained by the German invasion was 140,607 million francs, while injuries to persons were esti-

mated to be 77,834 million francs, a total of 218,441 million francs. These figures were made in the beginning of 1920 when prices in France were nearly six times pre-war prices. If we reduce the amount to the pre-war price basis it would come in round figures to about 36 billion francs or say, 7¼ billion dollars, a sufficiently startling sum.

In meeting this problem and the greater problems of the war debt, of war pensions and of the reconstitution of industrial and commerical life throughout the republic, France has the terrible handicap that 57 per cent. of her young and middle aged men were killed in the war and another large percentage so seriously incapacitated by wounds, or war caused illnesses, as to be incapacitated for business and industrial life.

Summation of Losses

Following is a computation of the losses inflicted in the world war upon France by Germany, as compiled by M. Maurice Casenave, French High Commissioner to the United States, for the Institution of Politics held at Williamstown, Massachusetts, during August, 1921:

MAN-POWER: Killed, 1,325,000; Crippled for life, 690,000.

A—PUBLIC PROPERTY LOSSES:

3,524 towns and villages destroyed or badly damaged.;
1,172 post offices destroyed;
2,671 telegraph stations destroyed;
34,741 telephones destroyed;
1,492 miles of double track road completely destroyed.
1,481 miles of single track road completely destroyed;
1,529 bridges, culverts, tunnels completely destroyed;
683 miles of canals completely destroyed;
32,748 miles of highway destroyed;
7,300 schools and colleges completely destroyed.

B—PRIVATE PROPERTY LOSSES:

265,000 buildings completely destroyed;
300,000 buildings severely damaged;
4,701 factories and mines, each employing over 20 persons, destroyed;
6,340 factories, each employing less than 20 persons, destroyed;
8,242,390 acres of land rendered unfit for cultivation;
593,000 milch cows removed;
469,000 sheep and rams removed;
367,000 horses, asses, and mules removed;
338,000 pigs removed.

Reconstruction

So much then for the losses occasioned by the war. Let us now turn our attention to the other side of the picture and see what the French people have done to re-construct, or as many prefer to say, reconstitute, this devastated section of their country. Here we have a flood of sunshine thrown across the scene. With rare courage, great determination and by the exercise of a splendid optimism, the scars of war are slowly being effaced. As early as February, 1915, a government decree was issued providing for a determination and valuation of damages due to the war and making appropriations for the relief of those who suffered such damages. Shortly thereafter committees were appointed to consider the best means of reconstituting the dwellings and other buildings destroyed. This was in 1917. In this same year the British troops set on foot agricultural operations in the liberated territory. Every British army troop included an expert agriculturist with two subordinate officers, also specialists, 500 men and interpreters. The agricultural section worked by first of all collecting various metals with which the ground was littered, such as shells and old tins. Once this work was accomplished, ploughing

operations were undertaken with special ploughs brought from England. As the object of the work was to hand over the ground in the best possible condition to its owners, sowing was also undertaken.

Soldiers were posted to prevent troops from passing over ground that had been tilled or sown, and fences were also run up to protect the growing crops. The work was done in close cooperation with British and French agricultural experts and a single army in the period between March 10 and May 5, 1917, supplied 41,000 days' work for men and 2,000 days of horse labor. Another army used 100 threshing machines which burned 20,000 tons of coal. Threshing was conducted by agreement with the farmers concerned, the English being paid by receiving from 30 to 50 per cent. of the straw. The English soldiers also did useful work in collecting and repairing French agricultural machinery that the Germans did not have time completely to destroy.

In this year also the United States Forestry Service cooperated with the French authorities in putting into effect plans to restore the forests that had been destroyed by the Germans.

The French authorities took active measures in this and subsequent years to bring about the rehabilitation of roads, buildings, industrial establishments and farming lands as rapidly as military operations would permit.

The Crédit National Organized

In order to facilitate the reimbursement of those who suffered material damage from enemy action during the war, a company was organized under the terms of a law promulgated October 10, 1919, known as the "Crédit National Pour Faciliter La Réparation des Dommages Causés Par La

Guerre" (The Crédit National to facilitate the making good of the damages caused by the war). This company which has a capital of 100 million francs was formed by a group of the most important French banks. The declared objects of the company were to pay in cash the whole or part of the compensation due to those who had suffered damage from the war, to arrange for the payment of interest in respect of such advances and to receive on behalf of the state for a period of 25 years the whole or a part of the money to be employed for such purposes.

The capital required to pay compensations for war damages is raised by the issue of interest bearing obligations taking the form of premium bonds which are so popular with French investors. The payment of the interest, redemption and premium charges involved is guaranteed by the state which includes the necessary money in each year's budget. In this way the market for the rente and other public funds is preserved from prejudice. An especially interesting feature of the system is that, anticipating the probability that the new company will make an effort to attract foreign investors by issuing bonds in other than French currency denominations, the law enacts that the treasury shall assume the payment in connection with these bonds of all expenses due to the rate of exchange and other charges, including even any taxes that may be imposed on such bonds by foreign governments, so that the Crédit National will be placed in the same position as if it had issued all its bonds in French francs. The law further authorizes the company to make advances to a maximum total of 500 million francs ($100 million) in the form of long term loans (for not less than three years and not more than ten years), "to facilitate the creation, development or restarting of manufacturing and commercial undertakings

belonging to French citizens in devastated regions." The whole scheme of the Crédit National has received hearty public approval. A similar system was at one time very successfully employed in connection with financing railway extensions. The Crédit National up to December, 1921, had issued eleven billion francs in bonds, and had become a very important factor in solving the problem of reconstruction. It had paid 830,000 damage claims amounting to 1,291 million francs, had paid 256 million francs interest on war damage claims, had made 460,000 cash advances totaling, 5,300 million francs and had made other loans for nearly 3 billion francs. These payments aggregated over 9,800 million, leaving about 1,200 million francs in hand. A new unlimited bond offering made in the early part of 1922 realized an additional 4,730 million francs for the purposes of the company.

Progress of the Reconstruction Work

By the end of 1919, only one year after the signing of the armistice, great progress had been made with reconstruction work, expecially in putting the railroads back upon a normal basis, 55 per cent. of the factories destroyed were again in part productive, 30 per cent. of the 550,000 houses wholly or partially destroyed had been made habitable, 25 per cent. of the tillable lands had been made ready for cultivation.

To facilitate the work cooperative societies were organized in 1920 so that small property holders or business people could pool their resources for the common good, the government also offered premiums for every hectare (2½ acres) of wheat or rye cultivated in the devastated territory.

By the end of 1920 over 76 per cent. of the industrial establishments in the devastated regions had resumed work

while there were about 45 per cent. as many men at work in these establishments as before the war in 1914. At the close of 1921 the liberated regions possessed 86 per cent. of their pre-war population, over 90 per cent. of the factories were running, nearly 90 per cent. of the agricultural area was restored and fit for cultivation and 50 per cent. of the pre-war personnel was being employed. In the month of May, 1921, M. Loucheur, Minister of the Liberated Regions, estimated that it would cost from 80 billion to 100 billion francs to complete this work; say, at seven cents per franc, 5,600 million to seven billion dollars.

Up to January 1, 1922, the disbursements of the French treasury for reconstruction and other operations chargeable against Germany aggregated 80 billion francs. Of this sum 45 billion had been paid out for reparation for damages to property, 29 billion for reparation for damages to persons and 6 billion for interest on the sums borrowed for these expenditures.

The figures of the progress in reconstruction already made are more eloquent than any words could be. They are a monument to French ability to plan and carry through difficult undertakings, to French industry, to French thrift and to French pluck.

Economic and Territorial Changes, 1913 vs. 1920

We may now profitably consider what France has gained as a result of the war. This is a much more agreeable picture to look upon.

Alsace-Lorraine: The outstanding event of the bright side of the war is the repatriation of Alsace and Lorraine. The statue of Strasbourg in the Place de la Concorde in Paris no longer wears the mourning which for nearly fifty years kept

constantly before all passers-by the wrong which France and the Alsatians and Lorrainians had suffered in 1871.

The forests of Alsace and Lorraine cover nearly a third of the country with hard woods and conifers which yield annually a large amount of lumber. Then there are very important manufacturing establishments of cotton goods, woolen goods, ribbons, machinery, ceramics and glass.

Iron Ore of Lorraine: However, the great wealth of the recovered provinces is underground. The iron ore of Lorraine, known to the trade as Minette ore, when joined with the balance of this field, chiefly in what before the war was designated as French Lorraine, swings to France the control of the largest body of iron ore in Europe. She now has reserves of 4,830 million tons of this ore, of which 1,830 million came to her with repatriated Lorraine. France thus becomes second only to the United States as a potential world producer of iron ore and far in the lead in Europe. According to the United States Geological Survey, prior to the war the annual world output of iron ore was upwards of 177 million tons of which our United States produced 36 per cent.; Germany and Luxembourg, 20 per cent.; France, 12 per cent. and Great Britain, 9 per cent.

By the repatriation of Lorraine and the transfer of Luxembourg from the German customs union to the Belgian customs union the same tonnage would be now apportioned, over 23½ per cent. to France, 4.2 per cent. to Belgium and Luxembourg, with only 4.2 per cent. remaining to Germany; —the other countries remaining as before.

Potash of Alsace: Then, through the acquisition with Alsace of the potash mines of that province, the German monopoly of potash is destroyed. Up to within a few years Germany was supposed to possess in her Prussian mines the

world's supply of merchantable potash. Some twelve years ago deposits of potash salts were discovered in the forest of Monnenbruch, nearly at the foot of Hartmannsweiler-Kopf. The first shaft for their extraction was completed in 1909. Since then the number of mines has increased to over twelve. Investigations indicate that the deposits cover an area of seven square miles and range in thickness from six to thirty feet. How far the field extends and what is its productive capacity is not known with any precision, but the area already developed, less than one-tenth of the estimated whole, has been judged to contain 300 million tons of pure potash, valued at upwards of 3,500 million dollars.

Public Wealth of Alsace-Lorraine: It is difficult to value the public wealth of the repatriated provinces, but probably an estimate of 20 billion gold francs, say 4 billion dollars, would be conservative.

The Saar Coal Basin: Besides the iron ore and the potash of Alsace-Lorraine, France, under the terms of the treaty of peace, becomes for fifteen years the dominating factor in the Saar Basin which in 1913 produced 1,370,000 tons of pig iron, over 2,000,000 tons of steel and over 12,000,000 tons of coal. At the end of this time the people are to determine whether they desire to return under German rule or to remain permanently French. The coal reserves of the Saar are estimated to be over 16,500 million tons. Unfortunately this coal is not suitable for coking, thus leaving France still dependent to a considerable extent upon other nations for her coke. This situation will be largely remedied when the mines in the north of France which were sabotaged by the Germans are restored. The control of the Saar Basin doubles the coal reserves of France for the next fifteen years at least.

Colonies: Among the gains of France due to the war we

FRANCE

Physical and Economic Data

Pre-War vs. Post-War

(000 omitted—except in "area")

	1913	1921	*Loss* or Gain	Per Cent *Loss* or Gain
Area, actual figures (English square miles)	207,054	212,659	5,605	2.71
Colonies and Dependencies	4,538,543	5,119,138	580,595	12.79
Population—Home	39,601	*a* 39,209	*392*	*.99*
Colonies and Dependencies	40,986	53,582	12,596	30.73
(*Metric Tons*)				
Coal Reserves *b*	17,583	36,000	18,417	104.74
Iron Ore Reserves *b*	3,000	4,830	1,830	61.00
Potash Reserves *b*	.....	300	300	.....
Values francs *b*	.....	3,500	3,500	.....
Mineral Output				
Coal	40,800	28,900	*c 11,900*	*29.17*
Iron Ore	22,000	14,106	*7,894*	*35.91*
Pig Iron	5,200	3,200	*2,000*	*38.46*
Steel	4,419	2,600	*1,819*	*41.16*
Potash	.....	600	600	.....
Beet Sugar Output	973	305	*668*	*71.77*
Agricultural Output				
Wheat	8,692	8,784	92	1.06
Rye	1,271	1,130	*141*	*11.09*
Barley	1,043	823	*220*	*21.09*
Oats	5,182	3,559	*1,623*	*31.32*
Potatoes	12,586	8,225	*4,361*	*34.65*
Sugar Beets	2,050	314	*1,736*	*84.69*
Live Stock (Head)				
Horses	3,222	*d* 2,635	*587*	*18.21*
Cattle	14,787	*d* 13,217	*1,570*	*10.62*
Sheep	16,131	*d* 9,406	*6,725*	*41.69*
Swine	7,035	*d* 4,942	*2,093*	*29.75*
Wine Output (gallons)	1,161	*d* 1,189	28	2.41
Foreign Trade				
(*Metric Tons*)				
Exports	22,074	16,001	*6,073*	*27.51*
Imports	44,220	37,974	*6,246*	*14.12*
Total Foreign Trade	66,294	53,975	*12,319*	*18.58*
Shipping—Gross Tonnage	2,700	3,138	438	16.22

a 1921 Census excluding Alsace-Lorraine 37,500,000
Alsace-Lorraine 1,709,000

Total 39,209,000

b 000,000 omitted.

c When mines in north are rehabilitated output should exceed pre-war because of increase in reserves. Output in 1921 from the northern mines (included in our total) was 5,365,000 tons, comparing with 2,447,000 in 1920 and 18,662,000 in 1913.

d 1920.

have an addition to her colonial possessions of over 500,000 square miles of territory, chiefly in Africa, and of some twelve and a half million people. By some this added responsibility for undeveloped lands and millions of aborigines may be regarded as the assumption of an enlarged burden, but looking to the future the rounding out of her territorial possessions in the dark continent may prove to be of great value to France.

The National Wealth—How Affected: It is very difficult to weigh against each other the gains and the losses of the war in order to determine the net effect upon the national wealth. However, we have made an attempt impartially to determine this figure and, while we are not by any means in a position to give an unqualified conclusion, we believe that it is safe to say that the public wealth of France is today substantially as great as before the war, say about 300 billion gold francs, equivalent to about 60 billion dollars.

The table on the preceding page gives in statistical form the data upon which the foregoing remarks are based also some additional interesting economic data.

Chapter IX

Reparation

IN view of the highly controversial nature of the reparations problem we have confined the statements in this chapter to a recital of facts, without comment thereon.

Mr. Baruch in his book on "The Making of the Reparation and Economic Sections of the Treaty" tells us that after prolonged and earnest debate on the part of the delegates to the peace conference, an agreement was reached on the fundamental principle that "Germany's reparation obligations were to be determined in accordance with a fair construction of the allies' pre-armistice declaration and that such construction excluded imposing upon Germany the 'costs of the war' but was limited to what may be called actual damage." Therefore it is important in considering the question of reparations clearly to bear in mind the fact that they do not include war costs.

The next question before the delegates was to determine what should be included under the term "reparations." The decision arrived at may be briefly summarized as follows:

Damage to civilians, (*a*) those injured, and surviving dependents of those killed due to "all operations of war by the two groups of belligerents wherever arising" and (*b*) to the victims of German cruelty, or the surviving dependents of such victims.

Damage caused by maltreatment of prisoners of war.

Reimbursement for pensions and compensation in the nature of pensions to naval and military victims of war (including members of the air force), and to their dependents.

The cost of assistance to prisoners of war or to their families or dependents.

Allowances to families and dependents of mobilized persons.

Damage caused to civilians by being forced by Germany or her allies to labor without just remuneration.

Damage in respect of all property carried off, seized, injured or destroyed by acts of Germany or her allies.

Damage in the form of levies, fines and other similar exactions imposed by Germany or her allies upon the civilian population.

In resolving these principles of settlement into definite terms of payment, Mr. Baruch states that "the problem presented itself in three main aspects; first, restitution of objects removed but still in being; second, reparation in kind of property destroyed; third, financial restitution."

It was decided to defer the determination of the total amount to be paid by Germany until May 1, 1921. The power to fix this amount was vested in the reparation commission, to which commission the peace conference sought to give those powers which were recognized as essential to an intelligent solution and administration of the reparation problem.

The Reparation Commission

The reparation commission was created by the terms of the peace treaties. Provision is made for delegates to be nominated respectively by the United States, Great Britain, France, Italy, Japan, Belgium and the Serb-Croat-Slovene State. Each state also is entitled to appoint an assistant delegate who will take his place only in case of illness or necessary absence of the delegate from his nation.

On no occasion are the delegates of more than five of the powers represented entitled to take part in the proceedings

and to record their votes. The delegates of the United States, Great Britain, France and Italy have this right on all occasions. The delegate of Belgium has the right except when necessary to make room for the delegate of Japan or of the Serb-Croat-Slovene State. These latter delegates have the right to act when matters directly affecting their interests are under consideration.

The United States has never appointed a delegate, but has an unofficial observer attached to the commission.

The permanent office of the commission is in Paris.

The proceedings of the commission are private, but "communiques" are issued from time to time which make public various decisions taken by the commission as well as giving information relating to the approximate amounts of payments and deliveries made by Germany on reparation account.

The treaty confers very broad powers upon the commission. It is appointed agent of all the allied and associated powers for the purpose of collecting reparations, and is given general control of the entire reparation problem. It is authorized to fix definitely the amount for which Germany is liable and its decision in regard to the interpretation of the reparation provisions of the treaty is conclusive.

Reparation Payments Stipulated in Peace Treaty

In general. The treaty provides that Germany shall make compensation for all damage done to the civilian population of the allied and associated powers and to their property during the period of belligerency.

To Belgium. In addition to her share of the general fund, full reimbursement is to be made of all sums borrowed by Belgium from the allied or associated powers up to November 11, 1918, with interest at the rate of 5 per cent. per annum.

This settlement is to be made by a special issue of bonds of the German government, payable in gold marks on or before May 1, 1926. An arbitration has settled that the rates of exchange current on November 11, 1918, shall be used in determining the amount of this settlement.

Reparation in Kind. Germany agrees to the direct application of her economic resources to reparation of merchant shipping, to physical restoration, to deliveries of coal and its derivatives, dyestuffs and other chemical products. It is agreed that the value of these payments in kind shall be credited at their money value to the amount finally assessed against Germany.

Restitution of Stolen Articles. In addition to payments for damages suffered by the invaded country, Germany is required to return property stolen.

Costs of the Armies of Occupation. Germany is required to pay the total cost of all armies of the allied and associated governments in occupied German territory, such payments to be made in marks at the current or agreed rate of exchange.

Relative Priority of Treaty Charges

The priority charges established by the treaty, subject to the qualifications noted in paragraph "e," were as follows:

"(a) The cost of the armies of occupation as defined under article 249 during the armistice and its extensions;

(b) The cost of any armies of occupation as defined under article 249 after the coming into force of the present treaty;

(c) The cost of reparation rising out of the present treaty or any treaties or conventions supplementary thereto;

(d) The cost of all other obligations incumbent on Germany under the armistice conventions or under this treaty or any treaties or conventions supplementary thereto.

(e) The payment for such supplies of food and raw material for Germany and such other payments as may be judged by the allied

and associated powers to be essential to enable Germany to meet her obligations in respect of reparation will have priority to the extent and upon the conditions which have been or may be determined by the governments of the said powers."

Debt and Public Property of Ceded Territory to be Assumed by New Owners

The powers to which German territory is ceded by the terms of the treaty are obligated to assume a portion of the pre-war debt of Germany and to reimburse Germany for public property located therein. The method of settlement is left to the reparation commission. Exception is made in the case of Alsace-Lorraine, because Germany assumed no part of the French debt when she annexed Alsace and Lorraine in 1871. There is also a partial exception in the case of Poland, and Belgium is not required to make any payment on account of public property in German territory ceded to her.

Mode of Settlements

Any monetary obligation due by Germany arising out of the treaty and expressed in terms of gold marks is made payable at the option of the creditors in pounds sterling payable in London; gold dollars of the United States of America payable in New York; gold francs payable in Paris; or gold lire payable in Rome.

For the purpose of this article the gold coins above designated are defined as being of the weight and fineness of gold as enacted by law on January 1, 1914.

In practise such of the reparation payments as are made in cash are provided in foreign currencies and are credited at current rates of exchange to the German indebtedness in terms of gold marks. Deliveries in kind which are not valued directly in gold marks are credited in a similar manner.

The Revised Agreement of May, 1921

Pending the determination of the total payment to be made and the method of payment and in order to enable the allied powers to proceed at once to the restoration of their industrial and economic life, Germany was required by the treaty terms to surrender by May 1, 1921, values equivalent to about five billion dollars (20 billion gold marks).

As that date approached a controversy arose as to what payments in kind made up to that date should be regarded as being in fulfillment of this obligation. While Germany claimed to have paid in full the amount due to that date, the reparation commission estimated that she had paid only about two-fifths of that sum. This question has not yet been definitely determined by the commission.

However, the great question to be decided was that of the gross amount to be paid and when and how payments should be made.

After prolonged and bitter controversy between Germany on the one hand and the allied premiers on the other, finally the supreme council on May 6, 1921, sent an ultimatum to the German government requiring it categorically to declare within a period of six days its resolve to carry out without reserve or condition certain specified obligations.

The Amount to be Paid. The financial obligations as defined by the reparation commission were:

To pay 132,000 million gold marks, plus the amount of the Belgian debt to the allies (estimated at upwards of four and a half billion gold marks) and less:

(a) the amount already paid on account of reparation,
(b) sums which might be credited to Germany in future in respect of state properties in ceded territory, etc., and

(c) sums received from other enemy or ex-enemy powers in respect of which the commission might decide that credit should be given to Germany.

Bonds to be Issued. In order to enable Germany to meet her liabilities and to adapt her payments according to her capacity, she was required by the ultimatum to create and deliver to the commission, in substitution for bonds already delivered or deliverable under the peace treaty, certain bonds as under—

> "Series A" bonds, for an amount of 12,000 million gold marks, to be created and delivered at the latest on July 1, 1921. An annual payment is required to be made from funds to be provided by Germany in each year from May 1, 1921, equal in amount to 6 per cent. of the normal value of the issued bonds, out of which there is to be paid interest at 5 per cent. per annum, payable half yearly on the bonds outstanding at any time, and the balance to a sinking fund for the redemption of the bonds by annual drawings at par.
>
> "Series B" bonds, for 38,000 million gold marks, to be created and delivered at latest on November 1, 1921, interest (running from November 1, 1921) and sinking fund provisions as in "Series A."
>
> "Series C" bonds, for 82,000 million gold marks, to be created and delivered at latest on November 1, 1921. These bonds to be issued by the commission as and when it is satisfied that Germany can provide for the payment of interest and sinking fund on such bonds at the rates fixed for "Series A" and "Series B."

The above mentioned bonds were to be in such form and denominations as the reparation commission should prescribe. They are free of all German taxes and charges of every description, present or future, and are secured on the whole of the assets and revenues of the German empire and German states. The service of the bonds is a first, second and third charge respectively on these assets and revenues.

Annual Charge and How Provided For. In order to provide for the interest and sinking fund charges on the issued bonds

Germany is required to make the following payments each year:

(1) 2,000 million gold marks,

(2) (*a*) A sum equivalent to 25 per cent. of the value of her exports in each period of 12 months beginning May 1, 1921, as determined by the commission, or

(*b*) Alternatively, an equivalent amount as fixed on any other index proposed by Germany and accepted by the commission.

(3) A further sum equivalent to 1 per cent. of the value of her exports as above defined or alternatively an equivalent amount fixed as provided in (*b*) above.

When Germany shall have discharged her financial obligations, other than her liability in respect of the outstanding bonds of "Series C," the amount to be paid in each year under this paragraph is to be reduced to the amount required in that year to meet the 5 per cent. interest and the one per cent. sinking fund on the bonds then outstanding.

In addition to the cash payments Germany's obligation under the treaty of peace still held good to complete restitution of war loot or of similar articles in lieu thereof; to permit the allies to retain seized German ship tonnage upon condition that payment be made therefor for reparation account up to the fair value of the ships retained in excess of those apportioned to replace war losses; to deliver to France and Belgium supplies of coal to offset the diminished product from their mines because of German war sabotage, and to give France, Belgium and Italy preferential rights to purchase any surplus coal which she may have for sale.

Payments Made in 1921. Germany was to pay by May 31, 1921, one billion gold marks in gold or approved foreign bills or in drafts at three months on the German treasury, endorsed by approved German banks, these payments to be treated as the instalments due in 1921 of the annual sum of 2,000 million gold marks previously mentioned.

This payment was duly made; 120 million marks in cash and the balance in three months' notes endorsed by the Reichsbank and other German banks. These notes were paid at maturity. Some payments were made in New York and some in London.

The first quarterly payment to be determined by the value of Germany's exports became due on November 15, 1921. The amount due proved to be about 300 million gold marks. Cash payment was waived by the reparation commission in view of the fact that the values of coal, ships, et cetera delivered during the year had already more than offset the amount due in November.

Total Payments to December 31, 1921

An official statement by the reparation commission places the total value of the payments made by Germany in cash and in kind and of the cessions of state property covering the period from Armistice Day (November 11, 1918) to December 31, 1921, at 6,487,856,000 gold marks as per the following statement:

I. GOLD AND FOREIGN CURRENCIES	Gold Marks
Direct payments made by Germany to December 31, 1921	1,041,419,000
Receipts from other sources on German account:	
1. Payment by Denmark for cession of part of Schleswig-Holstein	65,000,000
2. Destroyed War Material Sold	40,960,000
3. Sundry items	657,000
Proceeds of Reparation Recovery Act	36,136,000
	1,184,172,000
II. DELIVERIES IN KIND	
Supplied to the Allied and Associated Powers	2,760,250,000
Sold to Luxemburg, to the Textile Alliance of the United States, etc.	39,092,000
Total liquid receipts	3,983,514,000

III. CESSIONS OF STATE PROPERTIES IN CEDED TERRITORIES

Estimated value (excluding Schleswig-Holstein properties shown above, the value of which has been realized in cash)	2,504,342,000
GRAND TOTAL	6,487,856,000

The Paris correspondent of *The London Economist* from which paper the above statement is copied states "that it should be remembered that Germany has made other payments in addition to those included in the above table. These include payments both in cash and kind in connection with the armies of occupation, the various inter-allied commissions, etc., which may be calculated as sufficiently important to bring her total expenditure in respect of allied claims, down to the end of 1921, to a grand total of 11,400,000,000 gold marks."

The disposition of these payments is said to have been as follows:

	Gold Marks
Payments made to Germany to enable her to purchase food supplies and raw materials	3,800,000,000
Reimbursement of advances made by certain allies to facilitate delivery of coal under Spa agreement, about	390,000,000
Pay of troops in armies of occupation (including American army) down to May 1, 1921	3,186,000,000
Cost of cantonments, etc., for armies of occupation	1,080,000,000
Payment of cost of inter-allied commissions to May 1, 1921	110,000,000
Balance	2,834,000,000
	11,400,000,000

However, the balance of 2,834 million was not an available balance as over 2,500 million gold marks included in the payments (see previous table) represents state property in ceded territory which had not yet been realized in cash. Then

there is the cost of the allied armies since May 1, 1921, which must be taken care of. Thus, as late as April 1, 1922, there was no money as yet in sight for making actual reparation payments.

Payments Required Subsequent to 1921

In 1922 and subsequent years the payments due under the May, 1921, settlement were to be as follows:—

Cash Payments, 500 million gold marks each January 15, April 15, July 15 and October 15; say two billion gold marks yearly;

Payments determined by exports values, quarterly, February 15, May 15, August 15 and November 15. Some estimates of these payments were that they would amount to at least 300 million gold marks, each, or, per annum, to 1,200 million gold marks. Other estimates were much lower.

Total Payments. If the higher estimates are realized the payments in future years will aggregate upwards of the three billion gold marks required to meet the interest and sinking fund payments required for bond issues "Series A" and "Series B" and leave a substantial surplus for "Series C." On the other hand, if the lower estimates prove to be right the payments may fall short of the full amount required for 'Series B."

Revised Programme for 1922. The schedule of payments for 1922 has been reduced by the reparation commission so that the total amount required will be 2,170,000,000 gold marks or 830,000,000 less than the amount required for full interest and amortization of bonds of Series A and Series B. The commission has fixed the cash payment for the year 1922 at 720,000,000 gold marks and payments in kind at 1,450,000,000 gold marks. Up to the time of this announcement the

commission had been allowing Germany to pay 31,000,000 gold marks each ten days. Under this arrangement 282,000,000 gold marks had been paid. For the balance of the year the commission stipulated for an installment of 18,000,000 gold marks to be paid on April 15th; from May 15th to October 15th, inclusive, monthly payments of 50,000,000 gold marks were required; while 60,000,000 gold marks were required to be paid on November 15 and December 15 respectively. As a condition for these concessions the commission insisted that provision should be made for revenue from additional taxation, that expenditures should be reduced and that a scheme should be adopted of regular internal loans to meet deficits, that a plan should be devised for raising a foreign loan, a scheme adopted for stopping the exportation of German capital and, if possible, to bring back that already exported, and for complete independence of the Reichsbank of government control. The commission also stipulated for the publication of full and regular statistics with a view to assisting the execution of the peace treaty.

Disposition of Payments

The cash payments as made by Germany go directly to the reparation commission. They reach the allies only in the form of interest upon and amortization of the German gold bonds attributed to them. Since interest and sinking fund payments upon these bonds are due half yearly, the commission will pay the allies holding "Series A" and "Series B" bonds—the third series must be left out of account for the present—the following sums: on account of "Series A" bonds, 360 million marks each May and November and on account of "Series B" bonds 1,140 million marks each May and November. Thus these payments will call for

three billion gold marks annually. If the amounts received for disbursement exceed this sum, then a portion of "Series C" bonds will be issued, and the surplus receipts used to make payments thereon. On the other hand if the receipts fall below the three billion gold marks, a corresponding reduction will have to be made in the payments on "Series B" bonds.

Guarantees and the Guarantees Committee

By the terms of the peace treaty the reparation commission is required periodically to estimate Germany's capacity to pay. The treaty reads (Annex II, 12, b.) "the commission shall examine the German system of taxation, first, to the end that the sums for reparation which Germany is required to pay shall become a charge upon all of her revenues prior to that for the service or discharge of any domestic loan, and secondly, so as to satisfy itself that, in general, the German scheme of taxation is fully as heavy proportionately as that of any of the powers represented on the commission."

By the terms of the May 1921 agreement the export tax is to be the special care of a committee of the reparation commission, to be called the guarantees committee, sitting in Paris or Berlin, as may be advisable. Its work is highly important and delicate, since, while forbidden to interfere with the internal administrative affairs of Germany, it is required to see that the export valuations are correct and that the yield of the tax is not injuriously affected by legislative or administrative measures; and to pass on other sources of revenue which Germany may propose to substitute for the export tax, in whole or in part.

The scheme of the German government is to repay the exporter the 26 per cent. which will be charged on passage of

his goods out of Germany, so that he will not have to add the tax to the cost of his article to the buyer.

Apportionment of Reparation Payments

By the terms of an agreement made at Spa July, 1920, the sums received from Germany for reparation payments are allocated as follows:—France, 52 per cent.; British Empire, 22 per cent.; Italy, 10 per cent.; Belgium, 8 per cent.; Japan and Portugal, each ¾ of 1 per cent. The remaining 6½ per cent. is reserved for the Serbo-Croat-Slovene State and for Greece, Roumania and other powers not signatories to the agreement. No provision is made for any payment to the United States.

Inter-allied agreements exist giving Belgium, subject to various conditions, a priority on satisfaction of her reparation claim up to the amount of about two billion gold marks, after the costs of the armies of occupation have been met.

It will be seen that France has the largest stake in the final outcome of the reparation payments.

The French Claim

As we have already noted in chapter viii the amount of the French claim as presented to the reparation commission in February, 1921, was 218,441 million paper francs, 140,607 million account of damages to property and 77,834 million account of injuries to persons.

Reducing this sum to dollars, on the exchange basis of seven cents to the franc, we arrive at a gold value of say $15,290 million. This would be equal, say, to 76 billion gold francs or 61 billion gold marks, or substantially the 68,640 million gold marks ($16.336 million) which France will be entitled to receive over a long period of years under the

terms of the May, 1921 settlement. The claim of France will be payable apparently as follows:—6,240 million gold marks ($1,485 million) in "Series A" bonds; 19,760 million gold marks ($4,703 million) in "Series B" bonds, these two series of bonds to be liquidated over a term of 35 years; and 42,640 million gold marks ($10,148 million) in the deferred or "Series C" bonds, the eventual payment of which is highly problematical, but which French authorities estimate may be paid over a period of 48 years.

The Wiesbaden Agreement

On October 4, 1921, an important agreement was signed at Wiesbaden by M. Loucheur, the French minister of the liberated regions, and Dr. Walther Rathenau, German minister of reconstruction. This agreement provides in substance for making of reparation payments by Germany to France in kind instead of in money. Germany undertakes, as from October 1, 1921, to deliver all material that France may demand for reconstruction purposes, up to the limits of her capacity for production and subject to the satisfaction of her own domestic necessities and to the quantity of raw materials at her disposition. The total value of the reparations in kind thus to be furnished by Germany to France between October 1, 1921, and May 1, 1926, a period of just over 4½ years, shall not exceed 7 billion marks, gold. The products specified in the Treaty of Versailles to be repaid in kind, viz.: shipping, coal, dye-stuffs and chemical drugs are excluded from the new agreement, but their value is to be included in the total of 7 billion marks, gold, just mentioned. No payment in cash will be made by France in respect of materials furnished under this agreement as their value will be deducted from the amount owing to France by Germany in respect of repara-

tions. It is not necessary here to state all the details of the manner in which this agreement is to be carried out. It may be noted, however, that France is not limited to ordering and receiving materials up to the amount of what her share in the German reparation payments in any one year may be. If she orders more than the equivalent value of her share, the surplus will be carried forward and set off against future payments. The advantage to France of the Wiesbaden agreement may be summed up in the fact that it will enable the restoration of the devastated regions to be accelerated by at least two years. France will also be able to avoid the greater part of the difficult and costly task of having to find money for the restoration in question and will be able to devote herself to the development of her natural resources and many important national works; such as the electrification of her railways, which she is desirous of carrying out. The reparation commission has approved the agreement, but with certain reservations chiefly regarding the rights of the powers not represented upon the commission. As certain amendments to the agreement have also been proposed by the interested parties it is difficult to determine when it may become effective.

Chapter X

Some International Comparisons

THE constantly fluctuating relative values of international currencies almost vitiates the value of comparative figures of national debts and budgets. Not only are figures constantly fluctuating as between nations, but also national statistics for given dates are with difficulty compared because of the fluctuations in the buying powers of home currencies. These difficulties are particularly great in the case of Germany and of other nations where the home currencies are steadily depreciating in value in terms of foreign currencies. Everything is in a state of flux. Nothing is fixed.

Take Germany, for example. The estimated net expenses, for the fiscal year ended March 31, 1922, amount to around 193 billion marks. If we turn this amount into dollars at the old gold parity of 23.8 cents to the mark, we obtain a dollar equivalent of about 46 billion, but the mark in March, 1922, was worth only a little over a third of a cent or one sixty-sixth of the old gold basis. On this basis the expenditures for the fiscal year would be only about $695,000,000. However, if we try to determine how much the German government could buy at home with 193 billion marks as compared with what the mark would buy in 1913 we find that in March, 1922, it took around 49 marks to buy what one mark would have bought in old times. This would mean that the buying power of this great mass of marks would be around $940 million. If instead of the buying power of the mark in March, 1922, we use as our factor the average buying power for the full year 1921 (say 19 to 1) then our marks would develop a value equivalent to 2.4 billion dollars!

Expenditures and Receipts

Obviously to compare figures of current expenditures on the dollar basis of the old pre-war gold parities would be very misleading. A comparison based on the exchange values of the national currencies or on their home purchasing power would seem to give a more correct view. However, so that the reader may draw his own conclusions, we have thought best to present tables in which the figures are compared on three bases, that is on the gold parity basis, the exchange value in New York during March, 1922, and the average home purchasing power basis of the currencies at the end of March, 1922, in terms of the 1913 values of commodities. These figures compare the pre-war and present status of the former entente allies, the United States and Germany.

Let us first compare the total expenses with the total revenue receipts as set forth in the table on page 116.

In view of the fact that substantially the entire sum of governmental expense is disbursed at home, the home buying power of the several currencies would seem to afford the fairest basis for comparison of the relative burden which the peoples of these nations are bearing.

On this basis the people of France are carrying the heaviest burden, $86 per capita. Belgium comes next with $77 per capita, then England with a burden of $71 for each of her nationals. Italy's people are only carrying a load equal to $27 each, not much more than the United States where we, each of us, must find $21 for the government. Germany's national expenses on this basis amount to only $15 per head of population, not much more than before the war.

A glance at the second column of the table shows that the United Kingdom and the United States are meeting their

EXPENDITURES AND REVENUE RECEIPTS

Former Entente Allies, United States and Germany

Fiscal Year 1913 or 1913-1914 vs. Fiscal Year 1921 or 1921-1922

(In *dollars*—000,000 omitted)

Nation *f*	Fiscal Year Ended *g*	Population	All Expenses Total	All Expenses Per Capita	Revenue Receipts Total	Revenue Receipts % All Expenses	Revenue Receipts Per Capita
Belgium	1913	7	*a* 155	*22*	155	*100.00*	*22*
	1921	7	*a* 1,870	*267*	986	*52.76*	*141*
	1921		*b* 741	*106*	391	*52.76*	*56*
	1921		*c* 539	*77*	284	*52.76*	*40*
France	1913	39	*a* 978	*25*	985	*100.71*	*25*
	1921	*i*38	*a*10,040	*264*	4,201	*l 41.84*	*110*
	1921		*b* 4,682	*123*	1,959	*41.84*	*52*
	1921		*c* 3,270	*86*	1,368	*41.84*	*36*
Italy	1914	36	*a* 506	*14*	513	*101.38*	*14*
	1922	38	*a* 5,555	*146*	3,539	*63.70*	*93*
	1922		*b* 1,471	*39*	937	*63.70*	*24*
	1922		*c* 1,042	*27*	664	*63.70*	*17*
United Kingdom.	1914	46	*a* 977	*22*	962	*98.47*	*22*
	1922	47	*a* 5,244	*112*	5,283	*100.74*	*112*
	1922		*b* 4,721	*100*	4,756	*100.74*	*101*
	1922		*c* 3,340	*71*	3,365	*100.74*	*72*
*j*United States . .	1914	99	735	*7*	735	*100.00*	*7*
	1922	109	3,485	*32*	4,250	*121.95*	*39*
	1922		*c* 2,293	*21*	2,796	*121.95*	*26*
*j*Germany . . .	1914	68	*a* 880	*13*	760	*86.36*	*11*
	1922	61	*a*45,959	*753*	23,259	*50.61*	*381*
	1922		*b* 695	*11*	352	*50.61*	*6*
	1922		*c* 940	*15*	476	*50.61*	*8*

a At par of exchange—Belgium, France and Italy, 19.3 cents; United Kingdom, $4.86; Germany, 23.8 cents.

b Exchange rate, average March, 1922—Belgium, 8.43 cents; France, 9 cents; Italy, 5.11 cents; United Kingdom, $4.37½; Germany, 0.36 cents.

c On basis average wholesale price index at close of March, 1922 (1913 prices = 100%)—Belgium, 347; France, 307; Italy, 533; United Kingdom, 157; United States 152; Germany, 4,888.

f Budget figures, revised by actual returns so far as possible.

g Belgium, December 31; France, December 31; Italy, June 30; United States, June 30; United Kingdom, March 31; Germany, March 31.

i Not including Alsace-Lorraine.

j Net results only of Post Office Department and in case of Germany, also of railroads.

l See text, top of page 118.

expenses entirely from taxation. The continental countries are not yet doing this, but if we eliminate from the expenses of France her payments for reconstruction we find that in 1921 she raised by taxation fully 60 per cent. of her expenses and that she expects in 1922 to raise very close to 100 per cent. (See chapter iv.) Reconstruction expenses France is raising indirectly from loans of semi-state, semi-private, corporations which she endorses. Before these loans mature France expects to be put in funds to meet her guaranty by the receipt of the payments due her by Germany on reparation account. Italy's deficit is constantly becoming less. After being nearly 23,000 million lire in 1919 she hopes that it will be found to be only about 5,000 million when the accounts for the year ending June 30, 1922, are balanced.

Even Germany's national finances are showing a greatly improved condition. In the first post-armistice year, that ended March 31, 1920, 73.43 per cent. of her budget was raised by borrowing, while in the fiscal year ended March 31, 1922, only 41.24 per cent. was so raised.

Let us now consider the character of the expenses of the nations whose affairs we are reviewing, as shown by the table on page 118.

A glance at the table shows that except in the case of Germany the heavy burdens are the military expenses, the pensions and the debt charge. In the case of France these items account for 57.94 per cent. of the total estimated expenditures for 1921. They account for 58.20 per cent. of the budget of the United Kingdom for the 1921-1922 year; for 66.86 per cent. of the budget of our United States for the same year; for 33.88 per cent. of Italy's budget for the previous year, the data for 1921-1922 not yet being available, and for 28.40 per cent. of Belgium's budget for 1921.

EXPENDITURES

Former Entente Allies, United States and Germany

Fiscal Year 1913 or 1913-1914 vs. Fiscal Year 1921 or 1921-1922

(In *dollars*—000,000 omitted)

Nation *f*		Fiscal Year Ended *g*	Military Total	Military % All Expenses	*e*Pensions Total	*e*Pensions % All Expenses	*d*Debt Charge Total	*d*Debt Charge % All Expenses	Other Expenses Ordinary	Other Expenses % All Expenses	Other Expenses *k*Extraordinary	Other Expenses % All Expenses
Belgium	*a*	1913	31	*20.0*	*h*	.....	42	*27.0*	82	*52.9*	.....	.....
	a	1921	206	*11.0*	88	*4.7*	237	*12.7*	941	*50.3*	398	*21.3*
	b	1921	81	*11.0*	35	*4.7*	94	*12.7*	373	*50.3*	158	*21.3*
	c	1921	59	*11.0*	25	*4.7*	68	*12.7*	271	*50.3*	115	*21.3*
France	*a*	1913	350	*35.8*	62	*6.3*	186	*19.0*	380	*38.8*	.....	.....
	a	1921	1,679	*16.7*	1,051	*10.5*	3,088	*30.7*	2,080	*20.7*	2,142	*21.3*
	b	1921	783	*16.7*	490	*10.5*	1,440	*30.7*	970	*20.7*	999	*21.3*
	c	1921	547	*16.7*	343	*10.5*	1,006	*30.7*	677	*20.7*	698	*21.3*
Italy	*a*	1914	131	*25.9*	*h*	.....	105	*20.7*	270	*53.3*	.....	.....
	a	1922	764	*13.7*	212	*3.8*	907	*16.3*	3,543	*63.7*	130	*2.3*
	b	1922	202	*13.7*	56	*3.8*	240	*16.3*	938	*63.7*	34	*2.3*
	c	1922	143	*13.7*	40	*3.8*	170	*16.3*	665	*63.7*	24	*2.3*
United Kingdom	*a*	1914	374	*38.3*	34	*3.5*	117	*12.0*	452	*46.2*	.....	.....
	a	1922	899	*17.1*	539	*10.3*	1,614	*30.7*	2,193	*41.8*	.....	.....
	b	1922	809	*17.1*	485	*10.3*	1,453	*30.7*	1,974	*41.8*	.....	.....
	c	1922	573	*17.1*	343	*10.3*	1,028	*30.7*	1,396	*41.8*	.....	.....
*f*United States		1914	313	*42.6*	173	*23.5*	23	*3.1*	226	*30.7*	.....	.....
		1922	875	*25.1*	480	*13.8*	975	*27.9*	1,123	*32.2*	32	*.9*
	c	1922	576	*25.1*	316	*13.8*	641	*27.9*	739	*32.2*	21	*.9*
Germany	*a*	1914	466	*52.9*	34	*3.8*	58	*6.6*	322	*36.6*	.....	.....
	a	1922	2,380	*5.2*	1,904	*4.1*	4,855	*10.5*	3,136	*6.8*	33,684	*73.3*
	b	1922	36	*5.2*	28	*4.1*	74	*10.5*	48	*6.8*	509	*73.3*
	c	1922	49	*5.2*	39	*4.1*	99	*10.5*	64	*6.8*	689	*73.3*

a At par of exchange—Belgium, France and Italy, 19.3 cents; United Kingdom, $4.86; Germany, 23.8 cents.

b Exchange rate, average March, 1922—Belgium, 8.43 cents; France, 9 cents; Italy, 5.11 cents; United Kingdom, $4.37½; Germany, 0.36 cents.

c On basis average wholesale price index at close of March, 1922 (1913 prices=100%)—France, 307; Italy, 533; United Kingdom, 157; United States, 152; Germany, 4,888.

d Exclusive of certain pension payments which some continental countries treat as part of the debt charge and which we include in "pensions," and not including interest upon debts to foreign governments.

e Statistics imperfect. Include some civil pensions and pensions of past wars as well as the last war.

f Budget figures, revised by actual returns so far as possible.

g Belgium, December 31; France, December 31; Italy, June 30; United States, June 30; United Kingdom, March 31; Germany, March 31.

h Data not available.

j Net results only of Post Office Department and in case of Germany, also of railroads.

k Includes for France and Belgium reconstruction and other special expenditures; or Germany expenditures in connection with execution of Peace Treaty.

It will be a surprise to many readers to note that the percentage of the total expenses absorbed by the military budgets is less today than it was before the war.

In the case of Germany reparation and other payments required by the terms of the peace treaty account for about 58 per cent. of the total expenditures, and railway deficits, food and labor subsidies and other exceptional expenses account for another 15 per cent. Thus it will be seen that the ordinary budget including the debt charge and military expenses only amounted to 27 per cent. of the total net expenditure. The reparation item in the 1921-1922 accounts is less than half of the amount which, on the basis of the London agreement of May, 1921, as already described in chapter ix, must be placed in the 1922-1923 and subsequent budgets.

We print herewith, expressed in their respective national currencies, comparative tables, compiled from official sources, of revenue and other receipts and of expenditures for Italy, the United Kingdom, the United States and Germany. Similar data for France may be found in chapters iii, iv, xiv, xv and xvi.

ITALY

Government Expenditures

(In *lire*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921	Budget Estimate 1922
*a*Ministries of Finance and Treasury	1,016	1,136	1,297	1,994	2,848	4,022	9,454	17,010	.....
Military	918	3,259	8,262	14,636	20,640	24,188	8,572	5,059	.....
Military Pensions	....	....	.....	.....	481	1,777	.....	.....	.....
Civil Government	606	834	893	790	1,092	1,531	3,933	5,158	.....
Reconstruction	....	....	.....	.....	.....	537	489	672	.....
Post Office, Etc.	148	166	173	175	238	397	645	884	.....
Total Expenses per Budget	**2,688**	**5,395**	**10,625**	**17,595**	**25,299**	**32,452**	**23,093**	**28,783**	**23,348**
Revenue Receipts	2,524	2,560	3,733	5,345	7,533	9,676	15,208	18,453	18,336
Deficit	**164**	**2,835**	**6,892**	**12,250**	**17,766**	**22,776**	**7,885**	**10,330**	**5,012**
	2,688	5,395	10,625	17,595	25,299	32,452	23,093	28,783	23,348

a Includes debt charge; item not given

ITALY

Government Receipts

(In *lire*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921
Principal Revenues								
Direct Taxes								
Land and Buildings	194	209	223	234	259	271	277	285
Income Tax	347	383	436	461	492	581	709	1,024
Tax on Payments	.....	.....	51	219	276	355	190	143
War Excess Profits and Capital Increment	.....	.....	.....	108	452	806	1,047	2,014
Tax on Dividends, Interest and Premiums, etc.	.....	.....	11	36	53	53	111	162
Total Direct Taxes	541	592	721	1,058	1,532	2,066	2,334	*c*4,067
Taxes on Business								
Successions and Mortmain	57	57	72	82	90	136	167	188
Registration & Stamp Duties	205	206	232	328	454	576	637	914
Mortgages	11	11	9	10	14	22	53	74
Sales Tax—Luxuries	.....	.....	.....	.....	.....	.....	.....	66
Government Concessions	14	14	12	12	16	18	35	46
Motor Vehicles, Cinematograph, Etc	7	11	13	16	15	62	106	149
Bank Note Circulation	.....	.....	.....	.....	.....	.....	.....	310
Total Business Taxes	294	299	338	448	589	814	1,298	*c*1,915
Customs and Excise Duties								
Custom Duties	343	211	325	502	567	561	513	525
Excise Duties	278	251	316	420	403	472	692	965
Total Customs, etc.	621	462	641	922	970	1,033	1,205	*c*1,608
Total Tax Revenue	1,456	1,353	1,700	2,428	3,091	3,913	4,837	7,590
Government Monopolies								
Industrial Monopolies	547	573	700	846	1,129	1,521	2,008	3,013
Commercial Monopolies	.....	.....	.....	.....	.....	.....	453	522
Railways	71	41	68	173	102	116	92	99
Post Office, Telegraph and Telephone	171	171	216	265	282	304	344	499
State Sugar	.....	.....	.....	3	28	57	67	60
Total Monopolies and State Services	789	785	984	1,287	1,541	1,998	2,964	4,202
State Domain	17	16	17	17	21	16	17	17
Sundry Receipts	262	406	1,032	1,613	2,880	3,749	7,390	6,644
Total Revenue	2,524	2,560	3,733	5,345	7,533	9,676	15,208	18,453
Total from Borrowing	.....	3,071	7,853	13,569	21,320	23,447	14,376	10,570
Grand Total Receipts	2,524	5,631	11,586	18,914	28,853	33,123	29,584	29,023
Revenue—% Receipts	100.00	45.46	32.22	28.26	26.11	29.21	51.41	63.53
Borrowing—% Receipts	.....	54.54	51.77	71.74	73.89	70.79	48.59	36.42

a Discontinued in 1920–21.
b New in 1920–21.
c Items are provisional figures and therefore do not exactly agree with the totals which are definitive.
d Estimated Cash Realization.

UNITED KINGDOM
Government Expenditures
(In *sterling*—000,000 omitted)

Years Ended March 31	1914	1915	1916	1917	1918	1919	1920	1921	*a*1922
Debt Charge	24	23	60	127	190	270	332	349	332
Military and Other Special War Expense	77	437	1,400	1,974	2,403	2,198	691	292	185
Military Pensions	.....	.....	.....	.....	.....	.....	99	109	111
Civil Government	72	74	72	71	78	85	496	391	384
Post Office	25	26	27	26	26	26	48	54	67
Total Expenditure	198	560	1,559	2,198	2,697	2,579	1,666	1,195	1,079
Exchequer Balance	10	83	26	26	21	13	9	3	11
To Be Accounted for	208	643	1,585	2,224	2,718	2,592	1,675	1,198	1,090

a Division of expenses partly estimated.

UNITED KINGDOM
Government Receipts
(In *sterling*—000,000 omitted)

Years Ended March 31	1914	1915	1916	1917	1918	1919	1920	1921	1922
Exchequer Balance	6	10	83	26	26	21	13	9	3
Tax Revenue									
Customs	35	39	60	71	71	103	149	134	130
Excise	40	42	61	56	39	60	133	200	194
Estate Duties	27	28	31	31	32	30	41	48	52
Stamps	10	8	7	8	8	12	23	26	20
Land, House and Motor Vehicles	4	3	3	3	3	3	4	10	14
Property and Income, including Super-tax	47	69	128	205	240	291	359	394	399
Excess Profits	.....	.....	*	140	220	285	290	219	48
Total Tax	163	189	290	514	613	784	999	1,031	857
Post Office	31	30	34	34	35	40	44	50	56
Sundry *a*	4	8	13	25	59	65	296	345	212
Total Revenue	198	227	337	573	707	889	1,339	1,426	1,125
Borrowing Net	4	406	1,165	1,625	1,985	1,682	323	−237	−38
Total Net Receipts	202	633	1,502	2,198	2,692	2,571	1,662	1,189	1,087
Total Resources	208	643	1,585	2,224	2,718	2,592	1,675	1,198	1,090
Revenue—% Receipts	98.02	35.53	22.44	26.02	26.26	34.58	80.56	100.00	100.00
Borrowing—% Receipts	1.98	64.47	77.56	73.98	73.74	65.42	19.44	.....	.....

* £140,000.

a 1915-1920. Including was contributions from India, and other overseas colonies and dependencies, also receipts from sales of war property, from trading undertakings, etc.

For historical and other data re public finances of the United Kingdom see **English Public Finance**, Bankers Trust Company Publication, 1920.

UNITED STATES
Government Expenditures
(In *dollars*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921	c1922
Debt Charge	23	23	23	25	198	616	1,024	997	991
Army and Navy	264	268	287	666	7,023	11,229	1,675	1,142	2,344
Military Pensions	173	164	159	160	181	222	213	261	
Civil Establishment	240	277	256	297	1,564	3,299	2,776	1,971	
Total Ordinary	700	732	725	1,148	8,966	15,366	5,688	4,371	3,335
Panama Canal	35	29	17	19	21	12	6	16	3
Special	.....	.....	.....	b919	4,804	2,973	692	708	35
Total Expenses	735	761	742	2,086	13,791	18,351	6,386	5,095	3,373
Balance in Treasury	162	104	178	967	a624	1,226	360	533	272
To Be Accounted for	897	865	920	3,053	14,415	19,577	6,746	5,628	3,645

a This is smaller than amount shown *per contra* as brought forward July 1, 1919, because after that date unexpended balances in hands of disbursing officers are included in the "Balance in Treasury."

b Special expenditures include purchase of obligations of foreign governments, purchase of farm loan bonds and, from 1919, certain adjustments in the accounts of disbursing officers and agencies.

c The month of June partly estimated.

UNITED STATES
Government Receipts
(In *dollars*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921	d1922
Balance in Treasury	162	104	178	967	a624	1,226	360	533	533
Ordinary Receipts									
Customs	292	210	213	236	184	183	323	307	356
Income and Profits Taxes	71	[illegible]	148	559	2,530	2,661	3,691	3,248	2,068
Misc. Internal Revenue	346	356	388	489	857	1,239	1,1[illegible]	1,354	1,145
Miscellaneous Receipts	63	72	54	83	205	621	973	655	528
Total Ordinary	735	698	780	1,113	3,776	4,647	6,665	5,573	4,097
Panama Canal	.....	.....	2	6	6	7	9	12	[illegible]
Total Revenue	735	698	782	1,124	4,180	4,654	6,704	5,585	4,1[illegible]09
Net Borrowing	-4	5	34	1,751	9,268	13,238	-1,184	-317	-1,0[illegible]14
a Total Net Receipts	731	703	816	2,875	13,448	17,892	5,520	5,268	3,0[illegible]5
Total Net Resources	897	865	920	3,053	14,415	19,577	6,746	5,628	3,628
Revenue—% Receipts	100.54	99.29	95.83	39.09	31.09	26.01	100.00	100.00	100.00
Borrowing—% Receipts	.....	.71	4.17	60.91	68.91	73.99	.....	.....	.....
b Postal Revenues	288	287	312	330	389	436	437	464	.....
Expenditures	284	298	306	320	325	362	454	621	.....
Balance	+4	−11	+6	+10	+64	+74	−17	−157	.....

a Includes net revenues, only, of post-office department.

b As reported by post-office department. Only the net result of operations is brought into treasury statement.

c The method of accounting was changed in 1918-19 to include in "balance in treasury" unexpended balances held by disbursing officers and agencies.

d The month of June partly estimated.

GERMANY

Government Expenditures

(In *marks*—000,000 omitted)

Year Ended March 31	1914	1915	1916	1917	c 1918	1919	1920	1921	a1922
Debt Charge	239	463	1,340	2,610	6,511	5,907	8,915	35,629	20,399
Military and Demobilization	952	7,277	23,946	24,743	42,188	40,000	13,622	22,285	10,000
Pensions	146	128	109	105	102	147	1,334	3,724	8,000
Civil Government	1,228	836	402	342	368	352	3,743	18,694	13,177
Total Ordinary	2,565	8,704	25,797	27,800	49,169	46,406	27,614	80,332	51,576
Incident to Peace Treaty	.....	.....	.....	.....	.....	.....	17,000	25,629	112,000
Sundry Special	118	68	18	33	2,934	726	17,234	6,471	3,000
Reconstruction	.....	.....	.....	.....	.....	.....		6,790	5,000
Food and Labor Ministries	.....	.....	.....	.....	.....	.....		10,728	9,000
Total Extraordinary	118	68	18	33	2,934	726	34,234	49,618	129,000
Post and Telegraph	713	753	749	791	921	758	1,073	8,534	65,000
Government Printing	10	14	16	28	45	10	68	310	
Railways	113	109	109	128	191	158	55	30,223	
Grand Total	3,519	9,648	26,689	28,780	53,260	48,058	63,044	169,023	245,576 b

a Approximate figures. *b* Net expenses for 1922 (ordinary and extraordinary as above plus deficit in operation government services) = 193,105 million.

GERMANY

Government Receipts

(In *marks*—000,000 omitted)

Year Ended March 31	1914	1915	1916	1917	c 1918	1919	1920	1921	1922
Tax Revenues									
Ordinary	2,187	2,471	1,826	2,122	8,010	6,275	14,379	53,046	87,374
Revenues									
Extraordinary	81	370	113	93	2,288	108	938	3,195	.....
Government Services									
Post and Telegraph	833	745	742	761	834	881	1,336	5,355	10,353
Government Printing	16	19	24	32	50	14	71	410	.....
Railways	159	108	120	148	183	162	23	17,989	42,118
Total Services	1,008	872	886	941	1,067	1,057	1,430	23,754	52,471
Total Revenue	3,276	3,713	2,825	3,156	11,365	7,440	16,747	79,995	139,845
Borrowing—Net	109	4,435	20,382	19,659	23,851	40,618	46,297	89,028	105,731
Total Receipts	3,385	8,148	23,207	22,815	35,216	48,058	63,044	169,023	245,576
Revenue—% Receipts	96.78	45.57	12.17	13.83	32.27	15.48	26.09	47.33	58.76
Borrowing—% Receipts	3.22	54.43	87.83	86.17	67.73	84.51	73.43	52.67	41.24

c These figures are as in the official statement. The large difference is not explained.

GERMANY

Physical and Economic Data
Pre-War vs. Post-War
(000 omitted—except in "area")

	1913	1921	*Loss* or Gain	Per Cent *Loss* or Gain
Area (Actual figures, English square miles)	208,780	181,909	*26,871*	*12.86*
Colonies and Dependencies	1,027,820	.....	*1,027,820*	*100.00*
Population—Home	67,812	61,000	*6,812*	*10.04*
Colonies and Dependencies	12,065	.....	*12,065*	*100.00*
(*Metric Tons*)				
Coal Reserves	*a*423,356	*a*300,000	*a*123,356	*29.07*
Potash Reserves	*a* 2,300	*a* 2,000	*a* 300	*13.04*
Mineral Output				
Coal	191,511	136,210	*55,301*	*28.87*
Lignite	87,233	123,011	35,778	41.02
Coke	32,167	27,921	*4,246*	*13.19*
Iron Ore	28,607	*b* 7,500	*21,107*	*73.78*
Pig Iron	16,764	7,500	*9,264*	*55.26*
Steel	16,649	9,000	*7,649*	*45.94*
Potash	1,110	1,138	28	2.52
Beet Sugar Output	2,730	1,153	*1,577*	*43.11*
Agricultural Output				
Wheat	3,972	2,664	*1,308*	*32.93*
Rye	10,427	6,610	*3,817*	*36.61*
Barley	3,138	1,748	*1,390*	*44.29*
Oats	9,038	4,717	*4,321*	*47.81*
Potatoes	45,569	26,821	*18,748*	*41.14*
Sugar Beets	.....	7,555	.....	.....
Live Stock (Head)				
Horses	4,516	*c* 3,581	935	20.70
Cattle	20,443	*c* 16,789	*6,354*	*31.03*
Sheep	5,476	*c* 6,139	663	12.11
Swine	25,166	*c* 14,149	*11,017*	*43.78*
Foreign Trade (metric tons)				
Exports	73,713	19,810	*53,904*	*73.12*
Imports	72,831	18,836	*53,994*	*74.13*
Total Foreign Trade	146,544	*d* 38,646	*107,898*	*73.63*
Shipping—Tonnage	5,108	680	*4,606*	*90.17*

a 000,000 omitted.
b Estimated present capacity (pre-war basis, less Lorraine, etc.).
c 1920.
d 1920. The 1921 figures not available, as none were issued for first four months.

Germany's Economic Status

In considering the status of Germany it will be of interest to review her economic position before and since the war. This is done in the table on the opposite page which may be compared with a table for France prepared along similar lines which is printed on page 96.

The most striking feature is, of course, the transfer of Alsace and Lorraine from Germany to France. This swings the European premiership in iron and steel from the former country to the latter and divides the great potash fields of the world between the two nations.

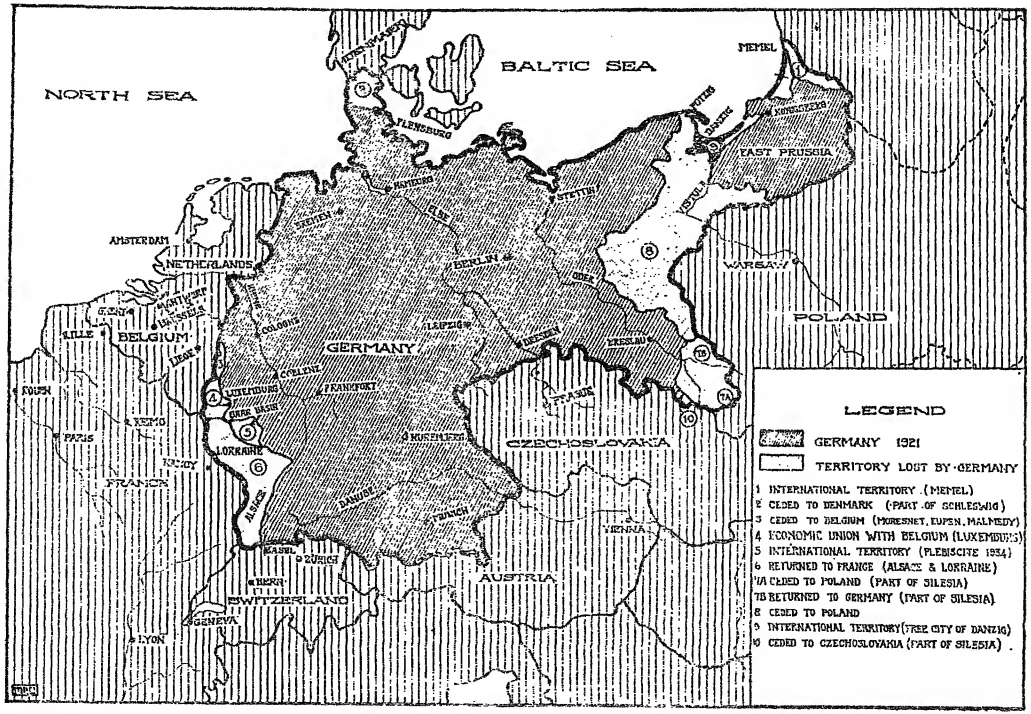
Other territorial losses take away from Germany fully 25 per cent. of her former coal reserves. Reference may be made to the maps printed herewith for the territorial losses of Germany in Europe and for the redistribution of territory in Central Europe and the Balkans.

In addition to territorial losses in Europe, Germany has lost her entire colonial possessions.

National Debts Compared

If it is difficult under present conditions to compare the statistics of expenditure and of income of different nations, it is still more of a problem how to compare the debt statistics.

To again illustrate by German conditions. At par of exchange Germany owed on March 31, 1922, over 86 billion dollars, but at actual exchange rates she owed less than 1⅓ billion dollars or not much more than she owed just before the war. At the average buying power of her currency for the year 1921 in terms of 1913 prices the debt would figure out at, say, 4.6 billion dollars, but if we take the greatly



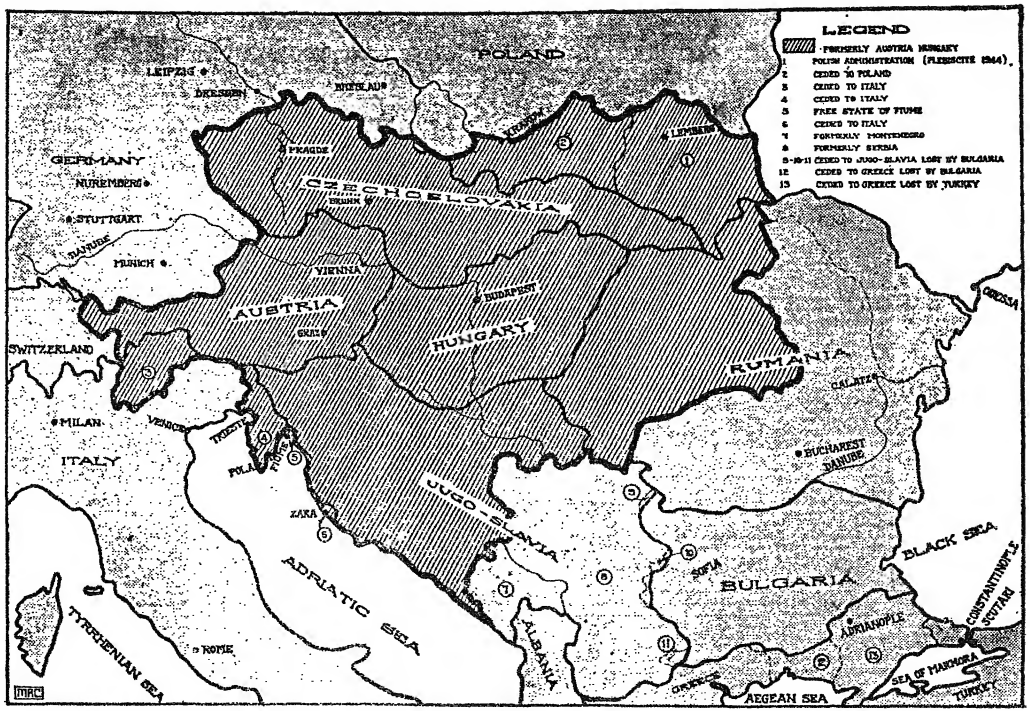
GERMANY 1921 vs. 1914
Area Outlined in Black Was Former Empire.

depreciated buying power of the mark at the end of March, 1922, the debt shrinks to 1.7 billion dollars. What is the national debt of Germany? Who can say what it is?

One thing is obvious, namely that the bond-holder who invested his marks in his country's securities before the great depreciation in the buying power of the mark occurred is now in a sad predicament. He may have invested gold marks worth nearly 24 cents, or he may have invested during the war when the mark still had approximately its pre-war purchasing power, but he must take his income in a mark worth only about a third of a cent American money. For him the debt already has virtually been repudiated. On the other hand the man who bought treasury bills during 1921 and paid for them in, say, one cent marks receives his income more nearly on an equitable basis, but even in his case the buying power of the income a few months after his investment was made is more than cut in two.

We have taken German conditions to illustrate the difficulty of instituting comparisons either in time in a given country; or, in place, that is between one country and another or several others.

The fluctuations in values have by no means been as extreme in France, or Italy, or the United Kingdom, or the United States. In fact in dealing with the statistics of these nations we are now meeting problems the reverse of those which we find in the case of Germany. Since 1920 the home buying power of these currencies has been steadily improving as also has the dollar value of the currencies of the European countries mentioned. This is tending to bring the exchange value of the debts nearer to their par values. It also has the effect of increasing the burden of the tax payer because a better dollar, franc, lira or pound is being given in payment



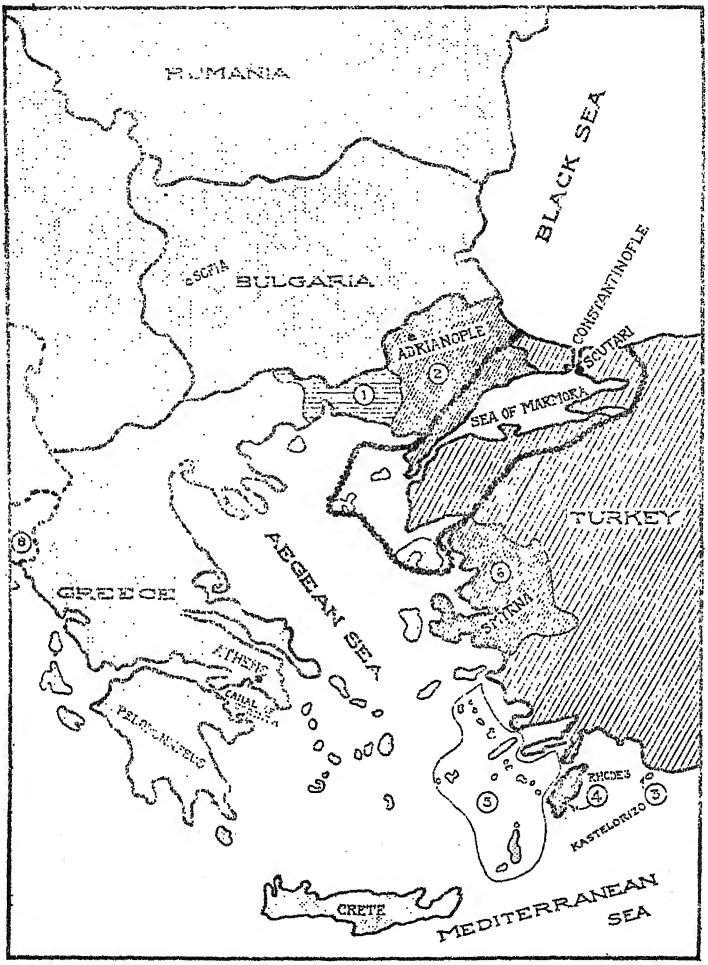
THE PARTITION OF AUSTRIA-HUNGARY AND THE NEW BALKAN STATES.

(Area Outlined in Black Was Former Empire).

of interest than was being given, say, in 1920. On the other hand, the bond holder, the "rentier" as they say in France, thus is being proportionately benefitted as the interest which he receives will buy more nearly what it would when he loaned his money to the state.

Floating Debts

This improving exchange value of certain national currencies at home and abroad is making it possible for the entente nations and the United States to borrow on their treasury bills at lower rates and a beginning is being made in funding this more dangerous form of debt. Theoretically a floating debt, that is a debt the payment of which can be demanded within a few weeks or months, is bad. However, it has its advantages in being a more flexible form of debt, because the interest can be readjusted to meet market conditions, or the principal can be reduced when a treasury surplus accrues, while the amount can again be increased if an unexpected demand for financial resources develops. Therefore it is desirable to have a certain proportion of the public debt in this form. When the proportion becomes dominant, as is the case today in Germany and in Belgium, the situation, theoretically at least, is dangerous and in case of a sudden demand for payment might put the state in a position of technical default. Perhaps a more serious danger is that under such conditions the state tends to absorb too large a part of the banking resources of the nation and thus to limit the amount of capital available for commerce and industry. It is true that under such conditions the note issuing power of the state or of the banks is correspondingly stimulated, with the inevitable outcome of which we are having object lessons today in the cases of



THE DARDANELLES INTERNATIONALIZED

Territory Lost by Turkey—Present Control

Turkey. Territory Lost by Turkey. International Territory.

1 Ceded to Greece (lost by Bulgaria); 2 Ceded to Greece (lost by Turkey); 3 Ceded to Italy; 4 Italian Administration (Plebiscite 1933); 5 Ceded to Greece; 6 Greek Administration—Boundary Undecided—(Plebiscite 1923); 8 Boundary Undecided.

Germany, the former central powers, in Poland and in its most virulent form in Russia.

The different nations whose affairs we are studying are leaning upon their banks in the following ratios, listing the countries in the order of their bank loans: Germany probably for over 50 per cent. of her floating debt; Italy for probably about 33⅓ per cent.—in her case the statistics reaching the United States are incomplete; France for under 30 per cent.; while the United Kingdom and the United States are not directly borrowing any money whatever from their banks. In addition to direct loans, we know that in the case of Germany a substantial amount of short term debt in the form of treasury bills is held by the banks for investment account, and it is probable that this is true also of the other nations, and also that treasury bills are being accepted from individual or corporate investors as collateral for loans.

We have already noted, when discussing the budgets and the budgetary resources of our former European allies, that expenses are being curtailed and revenues from taxation increased. Apparently for at least another year France, Italy and Belgium must continue to meet part of their expenses by additional borrowing, but indications point to a steady improvement in this respect. In England we may expect to see some actual reduction in total debt and an improving status in the form of the debt; while here at home a similar development may be reasonably anticipated.

Note Circulation

As a result of the war and post-war financing the currency note circulation of the nations whose affairs are under review increased from 1913 to various dates in the second half of

1921, as follows: Germany, 4,658 per cent.; England, 867 per cent.; Italy, 639 per cent.; France, 504 per cent. and the United States 240 per cent.

In the United Kingdom as well as in our United States the bank note circulation is heavily supported by specie, but in our case the notes are exchangeable for specie on demand, while in England this cannot yet be permitted because of the large outstanding issue of government notes, known as "currency notes." The Bank of France also is carrying large specie reserves which in good time will form a basis for the resumption of specie redemption of her notes.

It is obvious that the original genesis of the increased note issues was the policy of financing government requirements by inflation of the currency and of bank credits.

FLOATING DEBTS AND CURRENCIES

(In *dollars* at Exchange Parities—000,000 omitted)

Nation	Floating Debts			Currencies (Paper)			Currency Increase % Floating Debt Increase
	Total Dec., 1913	Total Dec., 1921	Increase	Total Dec., 1913	Total Dec., 1921	Increase	
Belgium . .	$103	$5,204	$5,101	$206	$1,213	$1,007	*19.74*
France. . .	402	16,974	16,572	1,165	7,297	6,132	*37.00*
Italy . . .	*b*169	*c* 6,601	6,432	*b* 537	*c*3,970	3,433	*53.22*
United Kingdom .	*d*160	6,124	5,964	222	2,167	1,945	*32.58*
United States . .	*b* 1	2,195	2,194	*e*1,069	*e*3,634	2,565	*116.90*
Germany . .	....	62,913	62,913	610	29,027	28,417	*45.17*

b June 30, 1914.
c October 31, 1921.
d March 31, 1914.
e Note circulation only, excluding gold and silver certificates which are covered dollar for dollar by specie, for which they are exchangeable upon demand. All other notes likewise are exchangeable for gold upon demand and have a substantial gold cover.

In the table on page 132 the statistics in regard to floating debts and currencies are compared. It will be noted that by no means the entire floating debt is represented by a corresponding increase in currency issues. Evidently large amounts of treasury bills have been bought for investment by individuals and corporations.

In the case of the United States the increase in the note circulation has no present relation to the floating debt, for, as already explained, this debt is practically held outside of the Federal reserve banks. The increase in note issues was probably caused more by financing of war industries and of purchases of long time loans. Once issued the notes have largely kept in circulation, although there has been a pronounced shrinkage in the amount outstanding during the first half of 1922.

In the cases of France, Italy, and the United Kingdom there also has been a moderate reduction in outstanding note issues in recent months. Germany, alone, of the nations whose finances we are reviewing, is still keeping the presses hot striking off increasing issues of notes.

Foreign Debts

Reference has already been made to the fact that early in the war France found it advisable to make advances of funds to certain of her allies. These advances for the period of the war aggregated upwards of three billion dollars. The details and the amount of the advances unsettled on December 31, 1921, are shown in the following table:

LOANS MADE BY FRANCE TO ALLIES

Prepared by the Ministry of Finance

To December 31, 1921

(In *francs*—000,000 omitted)

	Direct Loans	Value of Supplies Furnished	Total	Dollar Equivalent Par of Exchange (00,000 Omitted)
Belgium	2,841	843	3,684	736,8
Czechoslovakia	54	520	574	114,8
Esthonia	.....	10	10	2,0
Finland	.....	2	2	0,4
Greece	395	466	861	174,2
Italy	.....	932	932	186,4
Jugoslovakia	732	1,063	1,795	359,0
Lettonia	5	6	11	2,2
Lithuania	4	2	6	1,2
Poland	568	488	1,056	211,2
Russia	4,139	1,320	5,459	1,091,8
Roumania	1,035	146	1,181	236,2
Sundry	15	14	29	5,8
Total	9,788	5,812	15,600	3,122,0

It may be noted that in addition France lent to the United States 1,983 million francs which were settled in June, 1921. She also remains Great Britain's creditor for stocks and supplies having a value of about 200 million francs, the settlement of which is now being arranged.

It will be noted that these loans fall into two classes, direct loans and what may be called accounts in progress of adjustment. These latter represent the value of supplies furnished to the commissary departments of the armies of her allies and in most cases will be settled when accounts between the armies are adjusted.

The first of the direct loans were made as early as the first quarter of 1915, when Belgium was advanced 250 million francs and Serbia, Greece and Montenegro small sums. In February of that year an agreement was reached between France, England and Russia for a joint mobilization of their financial resources. By the terms of the agreement equal shares in advances to allied and friendly countries were to be taken by each party, but in the end the burden seems to have fallen upon France and England. Not only is this so, but they actually arranged to make loans to Russia herself, in order to enable that country to cope with the difficulties in which she was involved because of the closing of her ports. The price of corn and other goods purchased by France in Russia was to be charged against these advances, but when the Russian debacle came the French government was caught with net advances of nearly a billion dollars, while the French people saw investments in Russia to the extent of around three and a half billion dollars additional crumble to dust.

To show the inter-relation of the war debts owed by and to each of the principal allies the table on page 136 has been prepared. In this case the actual dollar advances of the United States have been taken, while the debts between other countries have been taken as if incurred on a gold basis and have been converted into dollars on such basis. There is also due the United States $1,179,000,000 for accrued interest.

INTER-NATION INDEBTEDNESS IN 1921 DUE TO THE WAR OF 1914-1918

Converted into Dollars at Exchange Parities

(In *dollars*—000,000 omitted)

Due from	France	United Kingdom	Italy	Other Nations	Total
To	$	$	$	$	$
UNITED STATES					
Government Loans	2,951	4,166	1,648	670	9,435
e Surplus War Supplies	407	.....	.....	167	574
Relief	.....	.....	.....	84	84
Market Loans	238	394	11	*g* 175	818
Total	3,596	4,560	1,659	*d*1,096	10,911
UNITED KINGDOM					
Government Loans	2,606	.....	2,322	*b*4,450	9,378
Relief	.....	.....	.....	39	39
Market and Bank Loans	364	.....	.....	.....	364
Total	2,970	.....	2,322	4,489	9,781
FRANCE					
Government Loans	.....	.....	.....	*c*1,956	1,956
War Supplies	.....	.....	.....	1,166	1,166
Total	.....	.....	.....	*a*3,122	3,122
OTHER NATIONS	252	863	34	.....	1,149
*h*Grand Total	*f*6,818	5,423	4,015	8,707	**24,963**

a For details see statement on page 134, "Loans Made by France to Allies."

b Russia $2,734 million.

c Russia $1,002 million.

d There is also about $57 billion due to the U. S. Grain Corporation.

e Official U. S. figures as of December 31, 1921 ("on basis of cash advances less repayment of principal")—total including the $57 billion due the U. S. Grain Corporation $10,150,000,000. The interest due and unpaid up to and including last interest payment in January, 1922, is officially stated to be $338 million for France, $509 million for the United Kingdom, $202 million for Italy and $110 million for other nations—total $1,179 million. Thus the U. S. Government was a creditor of the other nations on December 31, 1921, in the sum of $11,329,000,000.

f See table page 203 for details.

g Belgium $99,745,000; Russia $75,000,000.

h These figures differ somewhat from those given in the table on the opposite page. The differences may de due to accrued interest being included in one set of returns and not in the other.

Germany's foreign debt consists principally of the amount due by her on account of reparations. As this subject is fully elucidated in the chapter just preceding this, further comment here is unnecessary.

Some Comparative Debt Statistics

In concluding this comparison of the national debts of certain of the European nations and of the United States we present a table giving the status of these debts at the latest dates for which data are available. The data are given converted to dollars at parities of the exchanges and at the average market rates of March, 1922. The foreign debts are taken as

NATIONAL DEBTS
FORMER ENTENTE ALLIES, UNITED STATES AND GERMANY
1913-'14 vs. 1921-'22
(In *dollars*—000,000 omitted)

Nation	Total	Funded	% Total	Floating	% Total	Foreign	% Total	Per Capita
BELGIUM								
*a*Dec. 31, 1913 . .	893	752	*84.21*	103	*11.53*	38	*4.26*	*128*
*a*Dec. 31, 1921 . .	6,755	1,037	*15.35*	5,204	*77.05*	514	*7.60*	*844*
b do . .	2,987	411	*13.76*	2,062	*69.03*	514	*17.21*	*426*
FRANCE								
*a*Dec. 31, 1913 . .	6,492	6,090	*93.81*	402	*6.19*	.....	....	*171*
*a*Dec. 31, 1921 . .	51,674	27,836	*53.86*	16,974	*32.84*	6,864	*13.30*	*1,360*
b do . .	27,758	12,981	*46.77*	7,915	*28.51*	6,862	*24.72*	*730*
ITALY								
*a*June 30, 1914 . .	3,034	2,865	*94.43*	169	*5.57*	.....	....	*78*
*a*June 30, 1922 . .	*d*20,457	10,610	*51.87*	5,802	*28.36*	4,045	*19.77*	*538*
b do . .	8,689	2,809	*32.33*	1,792	*20.62*	4,088	*47.05*	*228*
UNITED KINGDOM								
*a*Mar. 31, 1914 . .	3,440	3,280	*95.35*	160	*4.65*	.....	....	*75*
*a*Mar. 31, 1922 . .	37,401	27,163	*72.51*	5,001	*13.35*	5,297	*14.14*	*814*
b do . .	34,251	24,452	*71.39*	4,502	*13.14*	5,297	*15.47*	*744*
UNITED STATES								
June 30, 1914 . .	1,338	1,337	*99.93*	1	*.07*	.....	....	*13*
Mar. 31, 1922 . .	23,407	21,450	*91.63*	1,957	*8.37*	.....	....	*215*
GERMANY								
*a*Mar. 31, 1914 . .	1,228	1,176	*9.56*	52	*4.24*	.....	....	20
*a*Mar. 31, 1922 . .	86,128	66,913	*22.31*	19,215	*77.69*	*c*	....	*1,435*
b do . .	1,303	291	*22.31*	1,013	*77.69*	*c*	....	*22*

a Exchange parity—Belgium, France and Italy, 19.3 cents; United Kingdom, $4.86; Germany, 23.8 cents.
b Exchange rate, average March, 1922—Belgium, 8.43 cents; France, 9 cents; Italy, 5.11 cents; United Kingdom, $4.37¾; Germany, 0.36 cents.
c For reparation payments see chapter ix.
d Estimated. See table, page 138.

if paid off at par of exchange. For purpose of comparison the pre-war debts also are given—in dollars at par of exchange.

The following tables, comparing in national currencies the public debts of Italy, the United Kingdom, the United States, and Germany for each of the years since 1914, it is believed will be found of interest. They are compiled from official statements. Similar data for France may be found on pages 26 and 28.

UNITED STATES
National Debt
(in *dollars*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921	1922 May 31
War Debt									
Funded	.....	.....	.....	1,466	9,314	20,726	20,409	20,154	20,282
Floating	.....	.....	.....	300	1,706	3,625	2,768	2,699	1,737
Total War Debt	.....	.....	.....	1,766	11,020	24,351	23,177	22,853	22,019
Old Funded Debt	968	970	972	947	966	883	884	884	884
Miscellaneous	370	374	253	263	258	248	237	239	236
Total Debt	1,338	1,344	1,225	2,976	12,244	25,482	24,298	23,976	23,139
Floating Debt—% Total Debt	.....	.....	.....	*10.08*	*13.93*	*14.23*	*11.39*	*11.25*	*7.50*

For history of the debt see "Our Public Debt," Bankers Trust Company Publication, 1919

GERMANY
National Debt
(In *marks*—000,000 omitted)

Year Ended March 31	1914	1915	1916	1917	1918	1919	1920	1921	1922
Permanent Loans	4,698	8,277	28,299	45,583	64,123	80,988	80,376	80,376	80,376
Floating Debt									
With Interest	220	1,220	1,936	4,716	7,793	11,408	10,708	.....	.....
Without Interest	.....	7,218	9,261	18,552	33,028	63,696	91,500	.....	.....
Total Floating Debt	220	8,438	11,197	23,268	40,821	75,104	102,208	183,000	281,148
Government Circulating Notes	240	240	360	360	360	360	360	360	360
Total Debt	5,158	16,955	39,856	69,211	105,304	156,452	182,944	263,736	361,884
Floating Debt % Total Debt	*4.26*	*49.76*	*28.09*	*33.62*	*38.76*	*48.00*	*55.87*	*69.38*	*77.69*

UNITED KINGDOM

a National Debt

(In *sterling*—000,000 omitted)

Year Ended March 31	1914	1915	1916	1917	1918	1919	1920	1921	1922
War Debt									
Funded	.....	399	1,151	2,938	3,371	4,391	4,904	4,805	5,207
Floating	33	95	587	681	1,166	1,412	1,312	1,275	1,029
Foreign	.....	.....	51	51	995	1,293	1,279	1,162	1,090
Total War Debt	33	494	1,789	3,670	5,532	7,096	7,495	7,242	7,326
Old Funded Debt	587	583	318	318	318	318	315	315	315
Terminal Annuities	30	28	26	24	22	21	19	17	17
Other Capital Liabilities	56	57	57	52	49	46	47	49	50
b Total Debt	706	1,162	2,190	4,064	5,921	7,481	7,876	7,623	7,708
Floating Debt % Total Debt	*4.67*	*8.17*	*26.80*	*16.73*	*19.69*	*18.87*	*16.16*	*16.73*	*13.35*

a For history of the debt and other details, see "English Public Finance," Bankers Trust Company Publication, 1920.

b The "Currency Notes" of which £300,351,000 were outstanding on March 31, 1922, are, of course, a debt of the nation, but as they are covered to the extent of 15.9% by gold and Bank of England notes and 84.1% by government securities included in the debt statement they do not constitute a net addition to the debt as above stated.

ITALY

National Debt

(In *lire*—000,000 omitted)

Years Ended June 30	1914	1915	1916	1917	1918	1919	1920	1921
Funded Debt	14,840	15,927	19,791	24,658	31,944	34,100	52,342	54,973
Floating Debt								
Treasury Bills	380	401	786	3,733	7,508	15,500	9,250	19,494
Note Circulation								
State Currency	499	766	1,135	1,460	2,113	2,522	2,538	2,544
Bank Notes Advanced	.....	1,613	2,158	3,295	6,482	8,026	10,333	8,024
Total Notes	499	2,379	3,293	4,755	8,595	10,548	12,871	10,568
Total Floating Debt	879	2,780	4,079	8,488	16,103	26,048	22,121	30,062
Total Domestic Debt	15,719	18,707	23,870	33,146	48,047	60,148	74,463	85,035
Foreign Credits at Par Value of Lira	.....	.....	2,276	5,303	11,471	19,200	20,266	*a*20,958
Total Debt	15,719	18,707	26,146	38,449	59,518	79,348	94,729	105,993
Floating Debt—% Total Debt	*5.59*	*14.85*	*15.60*	*22.07*	*27.06*	*32.82*	*23.35*	*28.36*

a If expressed in lire at average rate of exchange for March, 1922 this amount would be raised to about 80,000 million; the gross debt in paper lire would then stand at about 165,000 million, plus the deficit of about 5,000 million for the year ending June 30, 1922, say a TOTAL DEBT OF ABOUT 170,000 MILLION PAPER LIRE AS OF JUNE 30, 1922.

Chapter XI

The Indemnity or War-Fine of 1871

(When the Shoe was on the Other Foot)

THE preliminaries of peace following the Franco-Prussian War of 1870-1871, signed at Versailles on the 26th day of February, 1871, stipulated for the payment of an indemnity by France to Germany of five milliards of francs—one billion dollars American money. One milliard was to be paid in 1871 and the remainder within a period of three years. No mention was made of the nature of the money in which payment was to be made, but in subsequent agreements it was provided that payments should be made either in gold or silver; in notes of the Bank of England, of the Bank of Prussia, of the Bank of Holland or of the National Bank of Belgium, or in sight bills or prime bills of exchange drawn upon these same countries. Before payments became "liberative," that is effective to provide for the withdrawal of the German army of occupation, they must be converted into German thalers or florins. The conversion value as between French and German moneys was placed at 3 francs 75 centimes for the florin. The French could make "liberative" payments only in German moneys or drafts on Germany. If they paid in the moneys of any of the other countries named above or in drafts thereon, the Germans were to charge them with the expense of conversion. We will see later in the narrative how this worked out.

The indemnity was to be paid as follows:

	Francs
Thirty days after the re-establishment of order in Paris (for it will be remembered that Paris was then in the throes of civil war with the commune)	500,000,000
In the course of 1871	1,000,000,000
The first of May, 1872	500,000,000
The second of March, 1874	3,000,000,000
	5,000,000,000

As, on account of the transfer of Alsace and Lorraine to Germany, the French railroad company, Cie. Chemin de fer de L'Est, was deprived of the portion of its system located in these departments, the Germans agreed to accept such lines at a value of 325 million francs as a payment on account of the indemnity and there was also a small balance of 98,400 francs found due from the Germans to the City of Paris, when accounts with that city were adjusted, which also was allowed as a credit on the account. This left, in round figures 4,675 million francs to be paid in German moneys or their equivalent. At first the Germans would not consent to accept payments at any other times than those set in the treaty, but by a subsequent modification it was arranged that the payment of the last three milliards might be anticipated at the rate of 100 million a month, by giving one month's previous notice, but payments on account were not allowed at any time.

The French government was obliged to pay on the third of March of each year interest at the rate of 5% a year upon the last three milliards. These interest payments brought up the total of the indemnity payments to 5,301 million francs, to which must be added the cost of exchange operations,

some 14,600,000 francs. When the accounts were finally closed it was found that payments had been made as follows:

Credit for Alsace-Lorraine R.R., &c. . . .	325,098,400
Bank notes, German moneys, gold and silver .	742,334,079
Bills of Exchange	4,248,326,374
	5,315,758,853

The railroad was taken at a valuation by Germany, but it represented a capital outlay so far as France was concerned for she had to indemnify the owners by issuing to them her government securities. It will be noted that the bulk of the payment, substantially 80 per cent., was made in bills of exchange. By the treaty terms these were required to be reduced to German values before they would become "liberative." At first the foreign bills were turned over to the Germans and were by them converted into German funds at a cost for the first two milliards of some 11,360,000 francs. The French then determined to make the conversion themselves with the result that the expense of so doing for the last three milliards was only 277,637 francs.

How was this great mass of bills accumulated in so short a time? M. Leon Say, in his official report to the National Assembly from which these facts are taken, tells us that this was accomplished in two ways. In connection with the negotiation of the loans the government offered to receive in payment approved bills of exchange at liberal rates. M. Say tells us that by the original subscriptions and by subsequent payments connected therewith the sum of 1,773 million francs was so obtained.

In June, 1871, a financial agency was opened in London which received subscriptions to the loans and conducted important operations in exchange, with great success. The

French government became for the time being the most important factor in the exchange market, accumulating exchange in anticipation of payments, selling bills on London and other centres and buying bills on Germany.

In these operations the government was greatly aided by a syndicate of bankers comprising not only all of the great banking houses of Europe, to the extent of some 55, but through these houses many others of less importance. Much of the success of the operation is attributed by M. Say to the cooperation of the banking group. This group directly provided 700 million in bills and "became beaters-up of bills of exchange on behalf of France, and propagators of her credit." Through this group and through special agencies created in London, at Brussels, at Amsterdam, at Hamburg, at Frankfort and at Berlin the French treasury accumulated some 5,863 million francs in bills (included in this amount are the amounts directly received from subscribers and from the underwriting syndicate) in order to obtain the 4¼ milliards required for the settlement.

The bills acquired were in seven different currencies and they were of every conceivable amount from 1000 francs to 5,000,000. All told there were 120,000 of them. Every possible kind of business transaction must have been represented in this accumulation of bills from all parts of the world. There were bank credits, circulation bills, settlements for goods delivered, remittances on account of future purchases, drafts against interest and dividend payments due on bonds and stocks, as well as special paper created for the occasion.

We have not the space nor would it interest the general reader to discuss all of the details of the market operations by which this great transaction was effected. We will simply note in concluding this phase of the subject that the form in

which the total payment finally reached Germany was as follows:

	(00,000 omitted)
France herself provided in her own notes and coin .	637,3
German money and bills on Germany produced . .	3,170,3
Bills on England, Belgium and Holland produced. .	1,183,5
	4,991,1
To which must be added the credit a/c Eastern R.R.	325,0
	5,316,1

The exchange operations were facilitated by the fact that the balance of German trade was in favor of London and also by the fact that to meet the expenses of the war Germany had borrowed large amounts in London on short term securities which loans were paid during 1872 and 1873 with the proceeds of the indemnity.

The large transactions in exchange were felt in all financial centres and especially in the London market. There prices of bills on Paris naturally rose, while conversely prices of bills on Berlin declined. The first heavy purchases carried the price of Paris bills up about 2½ per cent., while Berlin bills declined about 1¾ per cent. This was during the latter half of 1873. Thereafter the banking syndicate assisting France seemed to get better control of the market. Prices of French exchange advanced when bills were being accumulated and in the intervals of payments prices declined. The respective quotations gradually tended toward parity and finally when the transaction was completed in the latter part of 1873 both the French and German quotations dropped together and in 1874 French exchange went below parity and German above.

As a result of the able manner in which the operation was handled by the French treasury the Germans were paid the last franc on the 31st of August, 1873, six months earlier than

the day set in the treaty. France was thus freed from German domination and in a position to take up the natural course of her daily life.

Where Did the Resources Come From With Which to Pay the Indemnity?

It is pertinent to inquire as to the sources from which came the real capital with which to effect these payments and within so short a time. Upon this question there has been much discussion. French financiers of the time were not at all clear about the matter in their own minds. One thing is evident, the reserve strength of the French people due to their proverbial habits of thrift is what saved the day. We have seen that 325 million francs were paid by crediting to the account the agreed value of the lines of the Eastern Railroad in Alsace-Lorraine; some 742 million francs were paid in bank notes or specie. 525 million of this sum came from the Bank of France as a loan, 125 million which the Germans accepted in notes at par and 400 million in gold. As to the remainder of the specie and notes of other banks and the four and a quarter milliards represented by bills of exchange, it is believed that a very substantial sum was derived from the sale of securities of foreign states, municipalities and corporations owned in France and by the investment in French funds of the income from such of these securities as were not sold. The foreign subscriptions to these two great loans of liberation amounted to around two milliards of francs, although subsequently most of the rentes sold abroad were reabsorbed by the French people themselves. Therefore it seems reasonable to assume that the funds for this payment came chiefly from the sale of foreign securities held in France, from the

income from such securities not sold, and from the diversion into the purchase of rentes of sums theretofore employed abroad. We are not told whether there were any loans made by the French banks to private investors, for the purchase of war loans, but if our recent experience in connection with war loan financing counts for anything, may we not assume that the French banks probably made considerable advances to their clients which were used to purchase war securities and afterwards were liquidated out of the savings of subsequent months over a period of possibly two or three years. In the event that such loans were made they could have readily been made available to the government through bank drafts. In fact we are told that direct drafts on Germany on account of merchandise exports from France accounted for a considerable portion of the exchange acquired by the government in connection with its operations.

Economic Effects of the Transfer of Capital upon France and Germany

It remains now to consider the effect of this great transfer of capital upon the country which was robbed and upon its despoiler.

Statistics of internal and foreign trade show that this was a time of prosperity in France. Although France parted with upwards of 500 million francs in specie in payment of the indemnity, say 273 million in gold and 239 million in silver, yet the specie reserve of the Bank of France which at the beginning of 1870 amounted to 1,203 million francs, actually increased to 1,331 million in December, 1874, although in the interval it had fallen to 505 million. Norman Angell in "The Great Illusion" sums up the economic results of the period as follows:—"The decade from 1870-1880 was for France a

great recuperative period, although for other nations in Europe one of great depression, notably, after the boom of 1872, for Germany." However, while this is a true statement, it by no means follows that the boom of 1872 was due to the indemnity payments received or anticipated, or that the subsequent reaction was due to over-speculation encouraged thereby. The fact is that a trade reaction was due at about that time and that the collapse of the boom caused by the world-wide industrial expansion of the previous few years was felt throughout the civilized world, not in Germany alone. The gathering of the money for the indemnity to the extent that it forced the French to sell foreign securities enabled them to realize on their securities at boom prices and to convert the proceeds into their own rentes, while it brought the capital transferred to Germany into that market at a time when it added fuel to the flames. However this may be, we are not inclined to agree with the writers of the period who claimed that the receipt of the indemnity payments caused over-commercial expansion in Germany and subsequent losses due to the collapse of this speculation.

The Use Made by Germany of the Indemnity Receipts

In closing this review it will be of interest to know the use to which the German government put its income from the indemnity. In addition to the indemnity and the interest thereon totalling 5,301 million francs and the 200 million indemnity forced from the City of Paris, taxes collected in the occupied portions of France, the charge to France for the expenses of the army of occupation and fines and penalties collected from individuals and from other cities than Paris are estimated to have been equivalent to nearly another mill-

iard, bringing up the total payments of a direct and indirect character possibly to 6,500 million francs. However, a large part of these payments was probably expended in France and did not directly reach the German exchequer. We may place such amount according to French authorities at substantially 5,500 million francs.

A German writer of the period, the well known professor of economics, Doctor Adolph Wagner, in an article on the finances of the German Empire published in 1874, places the sum received by Germany at 1,462 million thalers, equivalent at 3 francs 75 centimes to 5,557 million francs. Of this amount he credits 200 million francs to Paris, 5,301 million to France for principal and interest of the indemnity and 56¼ million to other payments received, so that French and German statements as to the amounts paid and received are substantially in accord. Of the total sum about two and a half milliards was directly appropriated by the new German Empire and about three milliards was distributed to the states; 582 million going to the South German States in varying amounts and the remainder to the old North German Bund—or Confederation—in which Prussia was the chief factor. This was because of the fact that the empire was not established until about the end of the war with France. It will be remembered that Emperor William was crowned in the Hall of the Mirrors at Versailles on January 18th, 1871. This was one way which the Germans took to humiliate the French. The chief military burden, therefore, fell on the old North German Bund.

In the following table based on Wagner's figures the statistics for the Empire and for the North German Bund are combined in order to give a better idea of the disposition which was made by Germany of the French francs.

GERMANY'S USE OF INDEMNITY
(in millions of francs)

WAR EXPENSES		
Empire	274	
North German Bund	1,415	1,689
INDEMNITIES AND PENSIONS		
Empire	924	
North German Bund	40	964
MILITARY POWER—adding to; including fortifications, &c.		
Empire	697	
North German Bund	450	1,147
SUNDRY		
Empire	137	
North German Bund	6	143
RAILROADS		
Purchase and rehabilitation—chiefly Alsace-Lorraine		539
TOTAL SPECIFIED USES		4,482
UNSPECIFIED		
North German Bund		503
South German States		582
GRAND TOTAL		5,567*

*The difference of 10 million francs between the statements of receipts and expenditures is as given by Prof. Wagner.

It will be noted that some 3,800 million francs, at least, were devoted to military purposes and may therefore be classed as unproductive expenditure, while by the French the entire sum was being used productively. In the amount which we have listed in the table under "Sundry" there is included an appropriation of 30 million francs for constructing a palace for the German Imperial Parliament, while in the

provision for increasing the military power there is an appropriation of 150 million francs for the "war chest." This sum is reported to have been kept intact in gold in the Julius Tower at Spandau and is supposed to have been nearly doubled in 1913, only to be quickly dissipated in the unprecedented cost of the recent war.

In the opinion of the French economist, M. Wolowski, one of the most important benefits accruing to Germany from the indemnity payments was that she was greatly aided in putting her currency on a gold basis, by the gold which she received in payment of the indemnity. He states that nearly a milliard of French gold was thus made available for this purpose. This was not all directly received from France but was paid over to Germany in connection with exchange operations resulting from the indemnity financing, or was bought by Germany with silver or other resources which the receipt of the indemnity made available.

The Remarkable Economic Recovery of France After the War

Sir Robert Giffen, the eminent English statistician, estimated that in 1870 the gross annual income of the French people was about 15 milliards. M. Bonnet, a dependable French financial writer of the period, placed the amount at 18 to 20 milliards and the annual savings of France before the War of 1870 at 3 milliards and expressed the belief that notwithstanding the losses due to the war and the increased taxes this rate of saving was maintained after the war.

Statistics show that in the decade between 1870 and 1880 in national wealth, in national income, in commerce, in manufacturers, mining, agriculture, carrying trade, and banking France, notwithstanding the loss of two of her finest

provinces and the milliards dissipated as a result of the war, remarkably increased the sum of her industry. Every branch of industry, except agriculture, shared in this advance. Agriculture was set back because of the loss to the vineyardists on account of the phylloxera.

The nation everyday was becoming richer and more prosperous. If an occasional bad year occurred the people continued to live comfortably because of their accumulated savings.

The immense reserve wealth of the French people in 1870 and their indomitable energy and thrift made possible this quick recovery from the war with Prussia.

Chapter XII

How France is Governed

THE French form of government may be described as a highly centralized bureaucratic government dominated entirely from Paris and controlled by the ministry, that is subject to change at the will of the chamber of deputies.

In a general way it resembles the English form of parliamentary government. There is a marked difference, however, in the procedure of England and her dominions on the one hand and in that of France upon the fall of a minister. Under British methods a change in ministers involves an immediate appeal to the people and a new election of members of the house of commons. No such thing happens in France. The members of the lower house, the deputies as they are called, serve out their allotted time of four years, no matter how many times the ministry changes.

French cabinets may change but parliament goes on its way with unchanged personnel. Therefore changes in the ministers do not reflect directly the will of the people as expressed at the polls, but only the will of their representatives—the deputies. The people can express their will directly only once in four years as is the case in the United States.

The President

Under the French constitution the president is elected for a term of seven years by the senate and deputies convened at Versailles as a national assembly. Any French citizen is eligible to the office without age limitation, provided he is not

a member of a royal family which has once ruled over France. The president has a salary of 600,000 francs, and a large expense fund. The nation has put at his disposal two official residences, the Palace of the Élysée in Paris dating from the beginning of the eighteenth century and the Chateau of Rambouillet which has a splendid park and forest.

The president is eligible to reelection but in only one case, that of M. Grévy in 1885, has any president served for more than one term.

The president presides over the council of ministers and appoints the president of that council. He supervises and secures the execution of the laws. He appoints all civil and military officers. He directs the armed forces of the nation, grants pardons, presides over public ceremonies, receives the diplomatic agents of foreign powers and constitutes the senate as a high court of justice to try persons accused of attempts upon the safety of the state. He convokes the parliament and terminates their sessions and can dissolve the chamber of deputies, but only by the consent of the senate. The president negotiates and ratifies treaties with foreign powers, but treaties of peace and commerce and those which involve the finances of the state or the persons and property of Frenchmen residing abroad must be submitted to parliament for approval. The president can declare war but only with the assent of the two chambers of parliament. He may be impeached by the deputies and tried by the senate.

The president's office is a very important and dignified one, but his powers are so hedged around that he has very little direct right of action. However, the extent to which he can make himself felt in connection with the government of the nation depends largely upon his personality. Responsibility,

however, is vested in the ministers through whom practically all action is taken.

The Ministers

The number of ministers is not determined by law and varies from time to time. At the close of 1921 there were some fourteen ministers as shown by the chart at the end of this chapter. In addition to the ministers holding portfolios there were, during the war, one or more ministers without portfolio. There are several under-secretaries of state who perform ministerial functions. When there is a change of government the President of the Republic appoints the president of the council of ministers whose relations to the government are similar to those of the English premier although the title of premier does not exist in France. This appointment is made only after consultation with public men who seem best qualified to advise upon the situation,—notably the presidents of the two chambers of parliament. It follows that the President of the Republic has not entire freedom of choice as he must choose as president of the council of ministers a man who has the confidence of the majority in the chambers. After the president of the council of ministers is appointed he selects his colleagues as he sees fit and they in their collective capacity compose the cabinet which when it meets formally is known as the council of ministers.

The Council of Ministers: Formal meetings of the ministers are presided over by the President of the Republic. Such meetings are held about twice a week. When the President of the Republic does not preside the meetings are known as cabinet councils. The president of the council of ministers may then preside or even some other minister.

Not only does the constitution make the ministers "collectively" responsible to parliament, but it provides that certain acts must be performed in the council of ministers and that during a presidential interregnum the council of ministers shall be invested with the executive power. Likewise many important laws authorize the issuing of decrees in the council of ministers. Presumably all questions of general policy are laid before the council of ministers. Its proceedings are secret. There is no secretary and no record.

Ministerial Responsibility: The constitution provides that the ministers shall be collectively responsible to parliament for the general policy of the government and individually for their personal acts. In other words they can remain in office only so long as their direction of affairs meets with parliamentary approval. While it is to the chambers, according to the constitution, that the ministers are politically responsible, yet in practice the chamber of deputies has established its ascendancy. Still cabinets have been occasionally forced to resign because of disagreement with the senate. The instability of French ministries is proverbial. It is estimated that the average life of a ministry prior to the war of 1914-1918 was less than nine months.

Legislative Rights and Duties: The constitutional law provides that ministers shall have the right of entry in the two chambers and that they must be heard when demanding a hearing. Thus a minister who is a senator may speak in the chamber of deputies; a minister who is a deputy may speak in the senate; and a minister who is neither senator nor deputy can be heard in either chamber. Thus ministers intervene in the work of legislation. They support the project of laws which they have introduced. They give their advice

as to proposals initiated by parliament; they oppose resolutions and amendments of which they do not approve. As it would be difficult for them to have cognizance of all matters in debate, they may be assisted by administrative delegates appointed by a decree of the President of the Republic for the discussion of any particular law projected.

Ministers being responsible to the chambers may be individually questioned and the entire body of ministers may be interpellated in regard to the acts of their administration. If the interpellation involves the general policy of the cabinet and action of the chamber thereon is unfavorable, the entire ministry is under the moral obligation of resigning.

The Parliament

The parliament is composed of the senate and of the chamber of deputies.

The Senate: Senatorships are apportioned among the several departments roughly according to population, the number varying from 1 to 10. Senators are chosen by an electoral college formed of the deputies of the department where the election is to occur, the members of the department general council, the members of the district councils in the department, and finally the delegates to the municipal councils within the department. The senate therefore not only represents the individual interests of French citizens, but also the collective interests of the various political divisions of the state.

Theoretically the senate has coordinate powers with those of the chamber of deputies except in the case of money bills, the right of initiative in regard to which is reserved to the deputies. The senate may act as a high court of justice in case of the impeachment of the President of the Republic or

of ministers by the chamber of deputies and in case of serious offenses against the safety of the state.

The Chamber of Deputies: This chamber is at present composed of 626 members, but under the operation of the electoral law of 1919 which does not become fully operative until the general legislative election in 1924, it is expected that after that year the number of deputies will be only about 530. Deputies are elected for a term of four years. The President of the Republic with consent of the senate has authority to order an earlier dissolution, but such a dissolution has occurred but once. As already stated, the chamber need not be dissolved in case of a change in ministry. There is no elaborate nominating machinery. Naturally parties determine by their own rules how their candidates will be selected. All that is necessary in order to become a candidate is for a qualified person simply to inform the prefect at least five days before election that he intends to run in a particular district. The deputies are elected by direct vote of the citizens. Each department elects one deputy for every 75,000 inhabitants of French nationality.

Deputies receive an annual salary of 27,000 francs each. They have complete freedom of speech and they cannot be prosecuted or arrested during a session of parliament for any felony or misdemeanor, except upon authority of the chamber, unless taken in the very act.

Meetings and procedure of parliament: Parliament meets on the second Tuesday in January and this session must last five months. In nearly every year an extra session is required due to the fact that the budget law was not adopted at the regular session. Special sessions must be called by the President of the Republic either on the advice of his ministers or at the request of an absolute majority in each chamber.

However, no such request has ever been made, special sessions having always been called by initiative of the council of ministers. The chamber is presided over by its president, four vice-presidents, eight secretaries and three questors. These officials are elected annually from among the deputies themselves. The committee system is an important feature of the French legislative methods. The budget committee is without doubt the most important of these committees just as the adoption of the budget is the most important work of parliament. A discussion of the budget and the method of its passage through the houses of parliament is reserved for a subsequent chapter.

The National Assembly

For the purpose of electing the President of the Republic, and to amend the constitution, national assemblies are convened at Versailles. These assemblies consist of the senators and deputies meeting as one body.

In electing the President of the Republic the members vote without discussion. An urn is placed in the tribune in which as their names are called by an usher the members deposit their ballots. The voting continues until one of the candidates obtains an absolute majority of the votes. The new president is immediately proclaimed by the presiding officer and accompanied by the ministers re-enters Paris and installs himself in the Elysée Palace.

When the national assembly convenes to amend the constitution, it is as the result of a majority vote taken in each chamber that revision is desirable. By the constitutional law of 1884 the question of a change from the republican form of government cannot form the object of any proposed revision of the constitution.

Local Administration

Departments: For administrative purposes France is divided into 89 departments. The head of each department is the prefect, a political official appointed by the President of the Republic under the counter signature of the minister of the interior. The prefect acts as general agent of the government and as representative of the central authorities. He supervises the execution of the laws and has wide authority in connection with the police, public hygiene and relief for pauper children. He nominates subordinate officials and transmits to them the orders and instructions of the central government.

To aid him the prefect has a general secretary and an advisory body known as the "conseil de préfecture," the members of which are appointed by the President of the Republic. This prefectoral council has jurisdiction in certain classes of disputes arising out of administration and must in certain cases be consulted but the prefect is not compelled to follow its advice.

There is also an elective deliberative body, known as the general council, consisting of property holders, business men, doctors and other leading citizens. This council is elected by universal suffrage, each canton in a department contributing one member. It controls the departmental administration of the prefect. It assigns its quota of taxes to each arrondissement; authorizes the purchase or exchange of departmental property and superintends the management thereof; authorizes the construction of new roads, railways or canals and advises on matters of local interest. Political questions are rigorously excluded from its deliberations. When not sitting, it is represented by a permanent commission—"commission départemental."

The departments are divided into 362 arrondissements (districts), 2,911 cantons and some 36,000 communes.

Arrondissements: The arrondissement is an administrative section or district of a department. It has not like the department a civil personality; it has no budget; and now that the method of voting by districts has been done away with it has very little reason for existing. The arrondissement has at its head a sub-prefect who represents the departmental prefect and thus the central authorities. He is assisted by an advisory council. Each canton sends a member to this council who is chosen by universal suffrage. As the arrondissement has neither property nor budget the principal business of the council is to allot to each commune its share of the direct taxes imposed on the district by the general (departmental) council.

Communes: The commune has been defined as a "local area of historical growth rather than an artificial creation." The communes vary in size from the city of Paris with its population of about 3,000,000 and a budget of millions of francs to little country villages where there are only a handful of people. The chief magistrate of the communes is the mayor. Just as is the case with a prefect of a department, the mayor of a commune is the agent of the central government and as such is charged with the local promulgation and issue of the decrees of the nation. He is also executive head of the municipality and in this capacity supervises the police, the revenues and the public works and acts generally as a representative of the commune. The mayor is elected by a municipal council. In Paris the office of mayor is filled by the prefect of the Department of the Seine and the prefect of police.

The mayor is usually assisted by one or more deputies

("adjoints") depending upon the size of the commune. Local affairs are decided by the municipal council. This council elected every four years, chooses communal delegates to elect senators and draws up a list of tax assessors whose function it is to settle how the commune's share of direct taxes shall be allotted among the tax payers. The sub-prefect selects from this list ten persons of whom he approves for the post. Meetings of the council are open to the public.

Cantons: The canton is purely an administrative division containing on an average about twelve communes, though some exceptional communes are big enough to contain more than one canton. It is the seat of a justice of the peace and is the electoral unit for the departmental council and for the district council.

Proposed Regional Districts: A re-division of France into 20 or 25 districts to supplant government administration by the present system of small departments has been approved by the council of ministers. The aim of the re-division is to eliminate the existing congestion of central offices, excessive number of administrative regions and the limitation of local initiative.

The present division of France by departments was instituted when lack of communication facilities and also political reasons necessitated centralized administration of government. Under the new plan the number of administrative districts is to be reduced to less than one third of the existing departments. The chief city in each region will be determined by decree after consultation with the general councils.

At the head of each region will be placed a regional prefect who will have authority over the prefects of the departments. He will be given a certain number of duties

which are at present attributed to the central administration.

Each region will possess its own financial organization, and will be administered by a regional council. The duties attributed to this regional council will consist in part of those at present fulfilled by the general councils and in part of those of the central administration.

The resources of each region will also consist of part of the taxes which are now collected by the state, and part of those turned over to the departments. Each region may also borrow money on its own account.

The departments will be maintained in each new district as they exist at present, and in order to safeguard their interests the project provides for the execution by the departments of public works paid for from their own resources, if these have been set aside by the general council.

This plan is now seriously under consideration and if adopted will tend to simplify local government.

The Courts

The courts of France are divided into two distinct classes. These are the administrative courts which deal with official acts and the judicial courts which deal with the acts of the general public. This distinction, not known in American and English procedure, deserves a few lines of elucidation.

Administrative courts: The French theory is that questions of administration should not go before the judicial courts but should be determined by men who have a practical and special knowledge of administrative law, rather than by those who have been trained only in private law.

Generally speaking, in England and in America there is one and the same law for the public servant or officer and the private individual. Not so in France and other con-

tinental countries; there the public official holds a privileged position. His rights and liabilities as well as the rights and liabilities of citizens in relation to him are decided by a separate body of law, known as administrative law, and special courts have been established to enforce these rights and liabilities. The administrative courts are an outgrowth of the Napoleonic legislation. The administrative courts are tribunals of enumerated jurisdiction, but the general rule is that they take cognizance of all administrative facts. Judges of these courts are appointed by the President of the Republic, but unlike the members of the judicial courts, are removable at his pleasure. It should be stated that there are cases in which the ordinary courts are competent to judge of administrative matters.

There are two classes of administrative courts: the prefectoral councils ("conseils de préfecture") and the council of state ("conseil d'état"). There are 89 of the former which, as we have already noted, in addition to their judicial functions have an advisory relation to the prefects of the departments. The latter advises the ministers in regard to certain classes of ordinances and sundry other matters of an administrative nature and also sits as a final court of appeal from the decision of the prefectoral councils.

Court of Conflicts: In case of disputes as to whether cases should go for settlement to the administrative courts or to the judicial courts, the proper procedure is determined by a special court established for this purpose—the court of conflicts.

The Judicial Courts: Of these the highest is the court of cassation. Below this court there are 26 courts of appeal, each of which has territorial jurisdiction over several departments; below these are courts of first instance in the arron-

dissements, while below these, at the foundation of the judicial structure are the justices of the peace in the cantons. All of the foregoing courts deal with civil cases; the justices of the peace also act as police judges for the disposal of petty offenses.

For the trial of minor criminal cases the same courts and tribunals act as in civil cases and without juries; but for more serious crimes, courts of assizes are constituted periodically in each department, with a jury of twelve men who are the sole judges of the question of guilt and who fix the punishment. These are the only courts in France with juries. The sentence is imposed by the judges.

Judges in all courts are appointed by the President of the Republic, and their tenure, except in the cases of the justices of the peace, is during good behaviour. Judges can only be removed by the court of cassation.

Commercial Courts: The rights and obligations of merchants, the formation of commercial societies, and bankruptcy proceedings are regulated by a special code and particular laws. Such cases as a rule are submitted to tribunals composed of merchants who are elected officials. The electors are French merchants, members of commercial companies, ship captains and other business men. The judicial functions thus exercised are gratuitous, and are exercised for a term of two years.

Judgments rendered are final where the amount in litigation is below a certain sum. In cases where larger sums are involved an appeal lies to a law court. However, appeals are rarely taken. These courts are of very ancient origin.

Arbitration Courts (Conseils de Prud'hommes): "Prud'homme" is an old French word signifying a wise man, a prudent man. The council of prud'hommes is a court charged

GOVERNMENT CHART

See Text for Descriptive Data

POLITICAL DIVISIONS of Continental France, including Alsace-Lorraine:

Departments	89
Arrondissements (Districts)	352
Cantons	2,911
Communes	36,222

THE ADMINISTRATION

The President of the Republic

The Ministries

The President of the Council of Ministers who also heads one of the ministries.

Justice
Foreign Affairs
Interior
Finances
War
Marine
Public Instruction and Fine Arts
Public Works
Commerce and Industry
Agriculture
Colonies
Labor
Hygiene, Relief and Social Providence
Liberated Regions

The Councils

The Council of Ministers when the President of the Republic presides—at other times known as the Cabinet.

The Prefectoral Council
The General Council
The Arrondissement Council
The Municipal Council

The Prefects of Departments

The Sub-Prefects

The Mayors

THE LEGISLATURE

The Senate—314 members, elected by Electoral College

Bureau

President of the Senate
Vice-Presidents
Secretaries
Questors

The Chamber of Deputies—612 members, elected by universal suffrage

Bureau

President of the Chamber
Vice-Presidents—4
Secretaries —8
Questors —3

THE COURTS

The Court of Conflicts

Administrative

The Council of State

The Prefectoral Councils
One for each department

Special Courts

Arbitration Courts (*Conseils des Prud'hommes*)—Have jurisdiction over disputes between employers and workmen.

Commercial Courts

Judicial

Court of Cassation which is the Supreme Appellate Court

Courts of Appeal—28

Courts of Assizes—For extreme criminal cases; constituted from time to time as required; the only courts with juries.

Courts of First Instance—One for each arrondissement (i.e., district)

Justices of the Peace—One for each canton

with terminating by way of conciliation, and if necessary by judgment, such differences as may arise between merchants or manufacturers and their employees. The council is composed of employers and employees in equal numbers. They are sworn in before a civil tribunal. They serve for six years. They elect from their own number a president and a vice-president, one of whom must be an employer and one an employee. The judgments rendered are final, if the amount of the claim does not exceed 300 francs; if it exceeds that sum, it may be taken on appeal to the civil court.

Summary

We have thus roughly sketched the manner in which France is governed and in which justice is administered. To sum the subject up in form for ready reference a chart has been prepared which the reader may now be interested in examining. This chart may be found on page 165.

Those who desire to go more deeply into this most interesting subject will find some of the books on the subject listed and briefly characterized in the bibliography on page 347.

Chapter XIII

The Budget

"GOLD," said Christopher Columbus, "is an excellent thing. With gold treasures are made; with gold one can do all he desires in this world; one can even make souls reach paradise." There is artistic over-emphasis here as to the importance of gold—or shall we say of money, credit, what ever you will,—to express the thought of the resources from which are met the needs of the individual or of the state. However, we will all agree with Columbus as to the need of such resources. In the ancient world and during the middle ages there were no systematic methods of taxation. It was not until the close of the middle ages that, gradually, there emerged a regular system of taxation. During the feudal period the feudal lords were expected in time of war to come to the aid of the overlord or king, with their bands of armed men fully equipped and with their needs for food and clothing provided for. For his ordinary needs the king had his extensive domains, his feudal rights and the right to take which comes from might. In these early days the treasury of the king was also the treasury of the state. Wherever the king went his strong boxes, containing his jewels, his robes and his money also went. The king came to have certain acknowedged rights in the persons and property of his people, but in turn the people gradually acquired certain rights which in England developed into the present constitutional form of government.

The course of events in France was different. The national treasury dates from the time of Philip IV, known also

as Philip the Fair, who reigned in the latter part of the 13th century and the early years of the 14th century (1285-1314). The key-note of the French system from the beginning was centralization. The king through his fiscal representatives at Paris demanded certain revenues as of right and the central bureau in Paris apportioned to the local authorities the amounts which they might expend.

Autocracy came to a violent end with the advent of the revolution of 1789, but the centralized system of financial administration still persists.

Public finance in France, as in other nations, falls into the two main heads of national and local finance. We will first take up a consideration of national finance and then we will see how the local finances are managed.

The Minister of Finance

The general supervision of the nation's finances is vested in the Minister of Finance. It will be noted that we have not coupled with the word "supervision" the important correlative term "control." This we have not done advisedly because the minister of finance has no right of control over the expenditures of his colleagues in the ministries. He has no means, except moral suasion, of bringing pressure to bear upon them either to keep down their estimated requirements or to compel them to live within the amounts allotted to them in the budget.

It is the duty of the minister of finance to lay before the chamber of deputies, annually, estimates of expenses and of revenues for the next fiscal year. These estimates, together with the accompanying recommendations for making them effective are known by the generic term "the budget."

The Budget

M. René Stourm, the leading authority on the subject, defines the budget of the state as "a document containing a preliminary approved plan of public income and expenditures." The term, as it has come to be used now-a-days, is perhaps better defined by Bastable as covering "a combination of ideas of (1) a valuation of receipts and expenditure, or a public balance sheet, and (2) a legislative act establishing and authorizing certain kinds and amounts of expenditure and taxation." It is in this wider sense of the term, again to quote Bastable, "as including the several steps of financial legislation and control" that we shall use the word in the remarks which follow.

As thus defined the term budget covers the whole field of public finance, which may be conveniently and logically considered in the following order: First the estimates and the legislative action thereon resulting in the appropriation and revenue acts; then a consideration of the methods of laying and collecting taxes and other revenues, of negotiating loans and of disbursing the income of the state to its creditors or beneficiaries; and, lastly, we will wish to be informed in regard to accounting methods, audits and the final determination of the accounts, for in France not only does parliament adopt the budget for a given year but it also determines when the accounts shall be finally and definitely closed.

The Fiscal Year vs. The Fiscal Period ("l'exercice")

The last remark makes it advisable at this juncture to define the difference observed in French fiscal practice between the fiscal year and the fiscal period ("l'exercice").

RECEIPTS AND PAYMENTS—ACTUAL

Fiscal Year 1913 [see page 171]

(In francs—000,000 omitted)

		Receipts	Expenses	Notes
BUDGET SERVICES				
a/c Exercice 1912		117	567	Actual Cash Revenue Receipts and Government Expeness for calendar year.
Excess of receipts of budget 1912 credited to sundry expenses . .		....	115	
a/c Exercice 1913		4,959	4,427	
Total Budget Service . . .		5,076	5,109	
TREASURY SERVICES				
Special Services	+ 552	....	....	Receipts and Expenses outside the Budget, giving net receipts of 78 million francs.
	− 474	78	....	
Accounts Payable				
Treasury Bills	+ 1,501	....	....	Financing Operations disclosing net borrowing for year of 343 million francs.
	− 1,112	389	....	
Annuities and Bonds .	+ 265	....	....	
	− 380	−115	....	
Bank Drafts.	+ 39	....	....	
	− 31	8	....	
Cheques	+ 1,021	....	....	
	− 960	61	....	
		343		
Treasury Correspondents	+19,175	....	....	Transactions between Central Treasury and its collecting and paying agents showing net debit of 200 million francs to Central Treasury.
	−19,071	104	....	
Correspondents of Finance Accountants	+19,002	....	....	
	−19,235	−233	....	
Special Funds of Finance Accountants	+ 782	....	....	
	− 786	−4	....	
Advances for Sundry Services	+ 733	....	....	
	− 843	−110	....	
Accountants Debits . .	0	....	....	
Transfer of Funds between Accountants	+ 17,076	....	....	
	− 17,033	43	....	
		−200	....	
Total Treasury Services.	+60,146	....	....	Net result of Treasury Financing.
	−59,925	221	....	
TOTALS	.....	5,297	5,109	
Cash and Portfolio	Jan. 1			Dec. 31
Cash	512	....	....	608
Receivables	2,872	3,384	3,572	2,964
GRAND TOTALS		8,681	8,681	

The Fiscal Year.—The fiscal year is a definite period which corresponds in France to the calendar year. The annual finance report always contains a statement in the usual accounting form with which we are all familiar. This statement gives on one side of the account the actual receipts of the year plus the cash with which the year began and balances it with a statement of expenses and the cash with which the year ended. On page 170 is such a statement for the year 1913 taken directly from the finance report for that year. The French terms have been translated. This is substantially the form in which the accounts of the United Kingdom and of the United States are given. However, this is only a memorandum account so far as French practice is concerned.

The Fiscal Period.—The official accounting period (the "exercice" it is called in French statements, a term with no exact English equivalent) is also co-terminous with a given calendar year. However the accounts for the fiscal period do not reflect the income for a given period of months or the actual expenditure within such period. Rather the accounts for the "exercice," to use the briefer French term, reflect the receipts *credited* in the books of account to a given year and the expenditures *debited* to the same period. The actual figures for the "exercice" can only be obtained by the inspection of the accounts for two successive years. For instance, the receipts and the expenses for the "exercice" of 1913 were as follows:—

INCOME ACCOUNT FOR "EXERCICE" 1913

(Francs—00,000 omitted)	Receipts	Expenses
Amounts received or paid out in 1913	4,958,9	4,426,7
Amounts received or paid out in 1914	144,1	923,0
Totals	5,103,0	5,349,7

Closing of the "Exercice" Year.—By law the dates for closing the accounts of the "exercice" are determined as follows: January 31 of the second year as the date for completing works under way; March 31, as the last date for auditing and vouchering; April 30, as the last date for making collections and payments; June 30, for the authorization and realization of certain expenditures by means of supplementary appropriations; July 31, for the rectification of the records.

We need not go into the detailed consideration of this subject, but it should be observed that so far as creditors of the state are concerned the books are held open for five years. Even then there are exceptions in favor of creditors residing outside of Europe, or where the fault is that of the government, or where an appeal has been taken to the council of state.

"The 'exercice' arrived at, the limit of forfeiture" says the law, "is no longer carried in the accounting of the ministries." Thus each year an "exercice" is definitely ended, for instance the "exercice" of 1913 was canceled from the accounting records on January 1, 1918.

The Estimates

We are now in a position to follow the development of the budget through its various stages. The first step is to determine upon the needs of the various government departments, or of the "ministries," as they say in France.

The initiative is taken by the minister of finance in the form of a circular letter to the other ministers requesting them to prepare for him an estimate of the appropriations required for the conduct of their departments. These letters in past years have usually been sent out in October or November of the second year preceding the "exercice" to which

the estimates appertain. For example, the letters requesting estimates for the year 1923, according to the past custom, would have been sent out during October or November of 1921. However, we are advised by the ministry of finance that in practice the actual budgets are now prepared during the first quarter of the preceding year, i. e. during the first quarter of 1922 for the year 1923.

The ministers are assisted in making up their estimates by local administrative agencies and by the permanent department heads. The local agencies being close to the people are in a position, better than anyone else, to know what is required to repair or build roads, for docks, warehouses, canals, schools, barracks and the like. Their recommendations are constantly going up to central bureaus in each city or department. The mayor or the prefect pass upon these recommendations or requests and in turn send their suggestions to the proper ministry in Paris. Here the bureau and division heads prepare formal estimates for the minister at the head of their respective departments and finally the ministers send the completed estimates to the ministry of finance. These estimates are then consolidated by the division of public accounting of the ministry of finance known as the "service of the budget," and finally reach the minister of finance in person.

Meanwhile the accounting officers in the ministry of finance have been busy preparing the revenue estimates. These estimates so far as indirect taxes, monopolies and domains are concerned, as well as the expense estimates, are made upon what is known as the automatic or averaging system. That is they are based as to receipts upon the actual results of the second year preceding and as to expenses upon the appropriations made for the year preceding that for which the budget is being prepared. For

example the estimated income for 1913 was based upon the actual income of 1911, and the expenses upon the appropriations made in 1911 for the 1912 "exercice." The probable yield of direct taxes "the annual proceeds of which vary but little without sudden drops" are estimated "in accordance with the most convincing indications."

The automatic method is most unsatisfactory. Estimates which are made so long in advance and which are based upon conditions which prevailed in the year preceding that in which they were made are apt to be much at variance with actual conditions which obtain in the year when the money is spent.

There is great temptation to make a budget which reads well. If the outcome does not agree with the estimates there is always the excuse that conditions changed after the estimates were made.

The Budget in Parliament

After the estimates have been reviewed by the minister of finance they are put in the form of a law, with explanatory memoranda, and are presented by the minister in person to the chamber of deputies.

The budget is usually submitted in January (in 1922 it was submitted in April) and immediately referred to the commission of finance. This commission consists of some thirty-eight members one of whom is appointed reporter, or chairman. In due course, sometimes only after several months have elapsed, the commission report to the chamber. Their report is usually in much detail and involves numerous changes. After this report has been duly debated the budget law is passed and then goes to the senate.

The senate is accustomed to anticipate by some weeks the

receipt of the formal law by appointing a budget commission which informally considers the budget as presented to the chamber of deputies. Therefore, when the formal law is received it has already been pretty well debated in committee. Thus the committee can quite promptly report its recommendations. After debate on the floor of the senate, a bill is agreed upon which goes back to the chamber. There are usually differences to be ironed out. Apparently French parliamentary procedure does not include the American scheme of a conference committee. Presumably there are private conferences. At any rate in due course the two chambers agree and the budget is no longer a "project" but a law. Finally, this law, as is the case with every other law, is promulgated by the President of the Republic.

Supplementary Appropriations

In spite of careful preparation and of the prolonged study in commission, the budget bill rarely gets through parliament without numerous amendments offered by individual members. These are invariably in the direction of increased appropriations.

Worse than this, however, is the fact that hardly has the budget law been enacted before the process of amendment begins. As far back as 1877 an English commercial report from Paris refers to "the eternal question of supplementary credits." "Each minister," says the writer, "is inclined to ask for additional sums of money for his particular department, and the chambers are perhaps but too ready to vote them, especially if they are not required at once, but for some future year. There is, in fact, an uninterrupted program of expenditure in each successive budget."

It is only fair to the system to state that, from time to

time, there are also cancellations of appropriations. These come about more or less as a result of departmental routine, because of change of plans or for some similar reason. Still, it is safe to say that the net result of supplementary action is always in the direction of additions to expenditure.

Making the 1921 Budget

To illustrate the foregoing remarks we will now follow the budget of 1921 in its progress from the office of the minister of finance until its final adoption. We will confine our remarks to the appropriations side of the account.

The proposed budget for 1921 was not presented to the chamber of deputies until July 30, 1920, fully six months later than the usual time, which, however, was marked progress so soon after the war.

The budget was divided into three parts, ordinary, extraordinary and special. The first two divisions had to do, respectively, (a) with the regular or normal expenses of government and (b) with expenses not of a permanent nature, due to exceptional circumstances, as a consequence of the war. The special budget had particularly to do with the expense of reconstruction of the devastated regions. The commission of the chamber of deputies reported their findings to the chamber on January 12, 1921. The budget then went to the senate and, following the usual custom, was referred to the senate finance commission which reported their findings on March 4, 1921. The budget law was finally adopted on April 30 and promulgated on May 1, so that the budget law was not effective until four months after the beginning of the "exercice" to which it applied. Similarly the budget for 1920 was not adopted until July 30 of 1920. We will explain shortly how the finances are cared for under such circumstances.

In the table on page 178, the first four columns of which are made up directly from the report of the senate budget commission and the last column from the budget law, the interested reader may trace the course of the budget bill through the two chambers. The figures are for the ordinary budget. The first column gives the appropriations for 1920. The second column gives the appropriations for 1921 recommended by the minister of finance upon the basis of the estimates submitted to him by the other ministers through the budget service, which in turn were based upon the 1920 appropriations. The third column gives the amounts voted by the chamber of deputies, the fourth the recommendations of the senate finance commission. We do not happen to have available the record of the amounts voted by the senate. In the last column are given the amounts finally appropriated.

It is of interest to note that as soon as the end of July it was found necessary to increase the appropriations for this ordinary budget from the 23,262 million francs adopted on April 30 to 24,579 million francs, an increase of over a billion francs in 90 days.

For the sake of the record we may note that the total appropriations for 1921 were as follows:—

	In Millions
Ordinary Budget	23,262
Extra-ordinary budget	3,236
Special Budget	15,816
Total	42,314

Provisional Twelfths

The reader has no doubt already raised the question in his own mind as to how the government regulates its expenditures when, as was the case in 1920 and again in 1921, the budget is not adopted until the year is well under way.

ORDINARY BUDGET FOR THE "EXERCICE" 1921

Recapitulation of the Appropriations Asked for and Granted

(In *francs*—000,000 omitted)

Ministries and Services	Appropriations for 1920 The *Basis*	Appropriations Asked by Government	Appropriations Voted by Deputies	Appropriations Advised by Senate Commission	Appropriations Finally Made for 1921
Public Debt	11,633	10,139	11,251	11,248	11,248
Public Powers	38	39	40	40	41
Ministries:					
Finance	209	242	272	269	279
Justice	112	125	152	133	143
Foreign Affairs	61	74	68	66	68
Interior	150	178	178	166	167
War	2,587	3,299	3,336	2,965	3,135
Marine	752	1,091	962	832	832
Education and Beaux-Arts	1,067	1,200	1,293	1,233	1,294
Commerce and Industry	14	18	18	17	17
Labor	151	159	174	168	167
Colonies	217	262	252	216	236
Agriculture	99	99	106	91	101
Public Works	1,952	2,138	1,640	2,209	2,607
Pensions, Etc.	95	151	149	134	136
Hygiene, etc.	163	279	225	199	203
Total Ministries for General Services	7,629	9,315	8,825	8,698	9,385
Cost of Collecting Revenues	2,369	2,705	2,597	2,431	2,458
Reimbursements, Restitutions and Non-valeurs	92	129	129	129	130
Total Ordinary Budget	21,761	22,327	22,842	22,546	23,262

Such situations are provided for under French fiscal methods by voting from month to month appropriations for expenses and authorizations to impose and collect revenues. Such temporary legislation goes under the designation of "provisional twelfths" because it is the custom to take as a basis for such appropriations one twelfth of the previous year's appropriation for each month for which temporary provision is made.

In Conclusion

It would be interesting, if space permitted, to discuss in detail the form of the budget law and the methods of its application. The comparative study of the budget systems of different countries is well worth the thoughtful attention of those charged with the management of the public finances of nations or their local divisions. Those who wish to pursue the subject further should consult M. Stourm's classic book on this subject, "The Budget," preferably in the French edition, although there is also a good translation available.

Chapter XIV

National Expenditures

To quote Stourm, "The consideration of national expenditures always precedes that of income, just reversing the methods in private practice. A family or an individual must determine their expenditures by their income. On the other hand the state determines what it needs, or what would be good for its citizens collectively, and then lays taxes or borrows money accordingly."

The expenses of the war and post-war periods have already been quite fully discussed in chapters II, III, IV and X.

The present day expenditures of the French nation, apart from the cost of reconstruction, may be roughly allocated, in the order of their importance, as follows:—to the service of the debt about 43 per cent.; for safety about 23 per cent.; for general internal administration, including postal service, telegraph and telephone, about 17 per cent.; for the development of economic activity, including subsidies and other disbursements to or on account of state railways and work on roads, bridges, rivers and canals, also including the expenses of the department of agriculture, colonies (for civil expenses) and the department of commerce and industry, about 10 per cent.; for education, libraries, art and the like between 4 and 5 per cent.; for social work, such as workmen's and farmers' pensions, allowances for large families, assistance to the aged, crippled and incurables, the anti-tuberculosis campaign, assistance to mutual-aid societies and other like expenses about 1½ per cent., and for external relations about 1 per cent.

The table on page 182 compares the expenditures by ministries for 1868 and 1873 and for decennial periods thereafter to 1913. The figures for 1920 are added for comparison. It is interesting to note the growth in military expenses prior to the war, the reasons for which we have already discussed in chapter II. The debt service was relatively stationary or even declined during this period. Apart from the above the important facts which these comparative statistics develop are the growth in expenditures for social benefits, such as education, civil pensions and the like and the expense France is put to in maintaining her colonial empire. This empire contributes to the strength of France but it also imposes upon her a heavy expenditure.

On account of the dis-establishment of the church in 1905 the ministry of worship thereafter disappears from the accounts, but this diminution of expense is more apparent than real, as the nation will for some years yet be paying large pensions, in the aggregate, to the clergy in office when the church was dis-established, while the state is still contributing to the upkeep of church buildings.

The cost of collecting the revenues is large in the aggregate, but moderate in percentage cost.

The normal public expenditures of France cannot be criticized as to their character or their size. In these respects they do not differ materially from those of other nations.

It is unfortunate, because of the early date at which budget estimates are made, that expenditures are frequently incurred which have no budgetary authority. The ministers are apt to incur expense to meet pressing exigencies expecting to have their action approved by supplementary appropriations.

During the war parliament voted blanket appropriations

NATIONAL EXPENDITURES

1868–1920

Including Ordinary, Extraordinary and Special Accounts

(In *francs*—000,000 omitted)

[Data 1868-1913 from Annual Reports and 1920 from Special Statement of Ministry of Finance]

Ministry or Service	Exercice 1868	Exercice 1873	Exercice 1883	Exercice 1893	Exercice 1903	Exercice 1913	*n* Exercice 1920
Debt Charge	382	1,196	1,121	1,039	924	958	11,269
Pensions *m*	84	104	176	217	249	326	859
War Pensions	.....	.....	.....	.....	.....	.....	4,909
Public Powers	52	30	37	13	14	20	38
Ministries							
Finances	64	54	26	28	29	57	1,779
Justice	33	34	37	35	36	61	148
Foreign Affairs	14	12	15	17	17	21	318
Interior	70	112	62	72	80	150	597
Army	461	482	739	650	706	1,262	5,459
Navy	197	156	279	253	305	553	1,009
Colonies				78	103	103	313
Worship	54	54	51	43	42	*c*	.....
Agriculture	*d*	22	23	38	35	55	179
Commerce	*d*	*d*	23	29	53	8	15
Industry	*d*	*d*	*d*	*d*	*d*	8	*d*
Public Works *f*	176	141	602	272	273	394	4,751
Education and Fine Arts	45	42	170	182	232	328	1,378
Pensions	.....	.....	.....	.....	.....	.....	1,058
Hygiene, etc., *g*, *i*	.....	.....	.....	.....	.....	.....	1,713
Labor	.....	.....	.....	.....	.....	85	154
Cost of Collecting Revenues	221	247	334	365	452	627	*a*
Reimbursements. Restitutions and non-valeurs	9	17	20	48	47	51	.....
Special Accounts	.....	.....	.....	.....	.....	.....	5,736
Algeria	41	28	7	72	*b*	*b*	*b*
Alsace-Lorraine	.....	.....	.....	.....	.....	.....	725
Liberated Regions *k*	.....	.....	.....	.....	.....	.....	15,709
Total	1,903	2,874	3,722	3,451	3,597	5,067	58,116

a These totaled in 1920 2,709, but the amount is distributed in the various accounts.
b Not given in statement. Presumably included in figures for ministries.
c Discontinued in 1905. See text.
d Included in Public Works.
f Includes Post Office and Telegraph & Telephone.
g New Ministries since 1914; because of war.
h Extraordinary.
i Includes Hygiene, 393; Revictualling, 1,311; Stocks, 9.
k Total cost of reconstruction was 15,484. This includes the 15,709 for the liberated regions and certain relatively small items incorporated in other accounts listed above.
m The pre-war civil and military pensions known as "Dette Viagère," i. e. "life debt" or "life annuities."
n The distribution of expenses differs somewhat from that given for 1920 on page 22.

which were equivalent to an authorization to the government to incur expenses for such purposes and in such amounts as they found necessary. The appropriations of this nature aggregated 165 billion francs; at par of exchange, 33 billion dollars, a tremendous responsibility for a nation to vest in a small group of its citizens, but necessary under the circumstances. England and other countries likewise had their votes of credit which carried similar rights and responsibilities to their ministries.

The expenditures for the war period and since, so far as data have been published, are set forth and discussed in chapters iii and iv. See especially the table on page 22.

Chapter XV

National Revenues

THE tax revenues of the French government are principally derived from taxes upon the income from real estate, from general and special income taxes, from fees for the registration of legal documents, from stamp taxes upon legal papers and commercial documents, from customs and from excise and consumption taxes.

The French have for years made of the manufacture and sale of gunpowder, matches and tobacco a government monopoly. The government also owns and operates the telegraph and telephone systems of the country and of course operates the postal service.

France still derives a considerable revenue from her public properties, especially from her forests.

Finally, there are certain exceptional resources the most important of which are, in a sense, not true resources of the state, but only moneys which the state handles for account of others, such as payments to pension funds deducted from the wages of state employees, or receipts in adjustment of accounts.

Since the war there has been a considerable adventitious income from the sale of the overplus of war munitions.

We have already discussed in a general way, in chapter IV, the revenues of France during the war period. For the information of those who are interested to know about such matters more in detail the accompanying tables and notes have been prepared.

TAXES AND REVENUES—TABLE I

For "Exercices" 1868–1913

(In *francs*—000,000 omitted)

[Data from Annual Reports of Ministry of Finance]

	Nos. Refer to Notes End of Chapter	1868	1873	1883	1893	1903	1913
Direct Taxes							
*Old	1	329	389	394	464	495	584
*Assimilated	2	7	20	26	33	47	63
Total	..	336	409	420	497	542	647
Indirect Taxes							
Registration	5	364	422	549	522	592	834
Stamps	6	85	140	159	167	200	241
Bourse	7	.....	.....	.....	.....	.....	10
Stocks and Bonds	8	.....	.....	*a*48	67	80	138
Customs *k*	11	77	162	300	431	402	778
Excise	12	243	328	421	468	406	697
Salt	14	32	36	32	32	35	*f*
Sugar	15	111	173	148	105	162	191
Sundry	17	64	136	187	118	184	.....
Total	..	976	1,397	1,846	2,000	2,061	2,889
Monopolies							
Matches	..	.....	.....	.....	*c*27	35	44
Tobacco	..	248	291	372	374	434	542
Powder—Gun	..	13	11	15	11	13	25
Postal	..	89	111	134	167	232	293
Telegraph and Telephone	..	10	15	30	43	64	118
Sundry	..	.....	.....	.....	*e*10	20	13
Total	18	360	428	551	632	798	1,035
State Properties	19	52	52	46	42	51	62
Receipts by Order	20	15	18	23	113	129	211
Sundry	21	37	111	76	25	70	71
Exceptional	22	145	255	691	8	12	185
Algeria	23	14	21	*b*	51	5	3
Grand Total	..	1,935	2,691	3,653	3,368	3,668	5,103

* Collections for departments and communes not included.

a Began in 1875. *c* Began in 1890. *f* Out in 1906.
b Not given *e* Began in 1886. *k* Sugar and Salt not included.

TAXES AND REVENUES—TABLE II

For "Exercices" 1914–1921

(In *francs*—000,000 omitted)

[Data 1914-1920 from Bulletin De Statistique et De Législation Comparée; 1921 furnished by Ministry of Finance]

	Nos. Refer to Notes End of Chapter	1914	1915	1916	1917	1918	1919	1920	1921
Direct Taxes									
Old	1	594	502	526	545	263	251	189	551
Assimilated	2	64	51	53	80	99	110	100	
Incomes	3	.....	.....	33	201	513	869	712	1,645
War Profits	4	.....	.....	.....	634	1,780	1,725	2,937	3,169
Total	..	658	553	612	1,460	2,655	3,955	3,938	5,365
Indirect Taxes									
Registration	5	615	462	525	720	924	1,874	2,718	2,705
Stamps	6	196	146	158	173	215	312	516	565
Bourse	7	6	1	2	3	3	7	25	19
Stocks & Bonds	8	153	157	181	242	253	290	568	926
Payments	9	.....	.....	.....	.....	210	629	804	13
Business Turn-over	10	.....	.....	.....	.....	.....	.....	942	1,898
Customs *d*	11	578	786	1,400	1,599	1,185	1,476	1,592	1,197
Excise and Consumption	12–17	745	708	677	913	963	1,698	2,392	3,284
Total	..	2,293	2,260	2,943	3,650	3,753	6,286	9,557	10,607
Monopolies	18	931	852	943	1,109	1,154	1,631	2,502	1,711
State Properties	19	124	186	240	254	284	100	144	113
Receipts by Order & Sundry	20 & 21	*b*	466	*b*	*b*	*b*	350	590	1,173
Exceptional	22	.....	.....	.....	.....	.....	*c* 1,193	*c* 1,650	*e* 1,501
Algeria	..	.....	.....	.....	.....	.....	.....	.....	8
Alsace-Lorraine	..	.....	.....	.....	.....	.....	.....	.....	216
Grand Total	..	4,006	4,317	4,738	6,473	7,326	12,515	18,381	21,765

b Figures not given.
c Sale of War Material.
d Sugar and Salt not included.
e Liquidation of stocks of war material.

Table I gives in comparative form receipts of the treasury in 1868 and 1873 and for decennial periods to 1913 inclusive. This table may be read in connection with the correlative expense table printed on page 182. Table II gives in itemized form the revenue receipts for each of the war and post-war years.

These tables make clear the remarks in regard to tax revenues and show the relative importance of the several forms of taxation.

The notes appended to this chapter explain each form of taxation, or of other revenue receipts, used in French treasury practice, except borrowing. Information in regard to the debt is given in the following chapter.

The following table compares the total figures of receipts and expenditures for each year:—

TOTAL RECEIPTS AND TOTAL EXPENDITURES EXCLUDING RECEIPTS AND PAYMENTS ON DEBT ACCOUNT
FOR "EXERCICES" 1868–1920
(In *francs*—000,000 omitted)

	1868	1873	1883	1893	1903	1913	1920
Receipts	1,935	2,691	3,653	3,368	3,668	5,103	18,381
Expenses. . . .	1,903	2,874	3,722	3,451	3,597	5,067	58,116
Surplus (+) or *Deficit* (−) .	+32	*−183*	*−69*	*−83*	+71	+36	*−39,735*

These deficits were met by borrowing or by utilizing surpluses from previous years. It is impossible to show how this was accomplished by an examination of the "exercice" figures, but the corresponding figures for the same fiscal years bring out the facts fairly well. They do not exactly

agree with the "exercice" figures, for, as already explained in chapter XIII, the latter are for accounting periods to which are credited or debited receipts and expenses which may accrue over a period of several calendar years, while the fiscal year figures reflect the actual transactions for the calendar year which is also the fiscal year.

TOTAL RECEIPTS AND TOTAL EXPENDITURES
FOR FISCAL YEARS 1868–1920
(In *francs*—000,000 omitted)

	1868	1873	1883	1893	1903	1913	1920
Receipts	2,241	2,975	4,173	3,400	3,678	5,075	**
Expenses.	2,176	3,468	4,140	3,752	3,595	5,109	**
Surplus (+) or *Deficit* (−) . .	+65	*−493*	+33	*−352*	+83	*−34*	**
Cash (+ or −) .	+97	*−802*	*−182*	*−157*	+131	+188	**
Debt (+ or −) .	+32	*−309*	*−215*	+195	+ 48	+221	**

**Not available.

In the figures for 1868, 1873 and 1883, in the second table, there are included, in the receipts, taxes collected for the departments and communes and, in the expenses, the transfer of these collections to the local authorities, but as these transactions about balance each other they do not affect the net result.

NOTES TO TAX AND REVENUE TABLES I AND II

Classification:—The classification of treasury receipts observed in the accompanying tables is not strictly scientific, but it is the form observed in the official statements, except that the second heading "Indirect Taxes" is not now used. However, in a rough way, this separation serves to differentiate between the old direct and similar taxes and other taxes whose incidence, in the main, with the exception of (8), is indirect.

(1) *Old Direct Taxes:*—Prior to 1914 these taxes, four in number, and therefore popularly known as "the four old women" were (a)

the *contribution foncière*, a tax based on real estate; (b) the *contribution personelle et mobilière*, at first a tax on the letting value of real estate, later becoming a straight house tax (combined with this tax was a personal, or head tax, based on the value of three days labor); (c) *a tax on doors and windows;* (d) the *contribution des patentes*, a tax on occupations and professions. These taxes dated from the time of the revolution and the years immediately subsequent thereto, although from time to time modified to meet new conditions.

By laws enacted March 29, 1914, July 31, 1917 and June 25, 1920 these taxes were revised as follows: (a) *contribution foncière*: after January 1, 1915 the tax on unimproved real estate ceased to be an apportioned tax and the quotas to be paid by the departments, arrondissements and communes were no longer fixed. The tax from that date was placed at 5% of the taxable income derived from unimproved real estate. The tax on improved real estate was fixed at 4% of the net income derived therefrom.

The other three classes of taxes under this head were annulled for state purposes by the law of July 31, 1917 and in their place were substituted what are known as the scheduled income taxes mentioned below. (3-b).

(2) *Taxes Assimilated to the Direct Taxes:*—This is a very old group of taxes on carriages, horses, mules, billiards, clubs, the verification of weights and measures, et cetera. Under this head are classed, also, taxes on goods in mortmain and on mining rents.

> *Special Note—on collections:*—Not only does the state collect its own revenues under the foregoing taxes, but it also collects additional taxes (*centimes additionnels*) for the benefit of the departments, communes, bourses and chambers of commerce and for workingmen's accident guaranty funds. When the real estate taxes were changed in 1914 provision was made that the government should continue, until some other plan could be adopted, to collect on the old basis the *centimes additionnels* for the benefit of the local treasuries.

(3) *Income Taxes:*—These taxes fall under two heads.

(a) The general income tax enacted July 15, 1914 as amended. The first imposition of this tax, on account of war conditions, was deferred from January 1, 1915 to January 1, 1916.

The tax now applies to taxable incomes in excess of 6,000 francs and is graduated. The income to be taxed is computed by adding together one-25th of the taxable income between 6,000 and 20,000 francs; two-25ths of that between 20,000 and 30,000 francs and so on, increasing one-25th for each 10,000 francs up to 100,000 francs, then for each 25,000 francs up to 400,000, then for each 50,000 up to 550,000 and the whole of the excess. The rate of tax on the income as thus calculated is 50 per cent. There are exemptions and reductions to suit special conditions. Unmarried or divorced persons without dependents and

married persons over 30 years old without children are subject to a higher rate.

(b) Scheduled income taxes, enacted July 31, 1917 as amended, upon industrial, commercial and agricultural profits and upon salaries, wages, pensions, annuities and professional incomes.

(4) *War Profits Tax:*—This tax was levied under the law of July 1, 1916, as amended. It taxed excess profits during war trade years over pre-war standard profits; this standard being the average of the last three years prior to August 1, 1914.

The tax is 50% of the excess profits of the individual or corporation on the portion of the taxable profits below 100,000 francs, then 60% on profits up to 250,000 francs, 70% up to 500,000 and 80% of any excess. The tax cannot be less than 6% of the capital, or on less than 5,000 francs in amount. This provision was to take care of concerns started since the war, as well as of individuals or intermediaries who did not work with capital. As a concession to the small business man, the first 5,000 francs of the excess profits was exempted from taxation.

Repeal:—This tax was repealed by the act of June 25, 1920—but it was estimated that payments then due would amount during 1921 to 4,000 million francs. The collections apparently amounted to 3,169 million.

(5) *Registration:*—This important group of taxes also dates from the revolution, succeeding similar taxes levied under the monarchy. It covers transfers of property, real or personal, by sale or by gift, between living persons, or by inheritance; mortgages and other legal agreements.

(6) *Stamps:*—This correlative group is intended to reach all transactions not caught in the "registration" net. Legal agreements must be written on stamped paper. Cheques, receipts, insurance policies, trademarks, passports, cards of admission to clubs or public meetings, shooting licenses, transportation contracts must all have revenue stamps affixed.

The value of the stamps to be affixed to documents depends either on the size of the document, or on the value dealt with.

(7) *Bourse:*—These are taxes on stock exchanges and commercial exchanges transactions.

(8) *Stocks and Bonds:*—Taxes upon the income from transferable securities. These taxes which have been levied since 1875 (act of June 29, 1872) are based upon previous laws dating back to 1850. As at present administered they are based upon the revenue law of July 31, 1872 as amended by subsequent laws (especially the laws of March 29, 1914, December 30, 1916 and July 31, 1917). They apply to incomes derived from dividends, interest, annuities, and all other income derived from stocks, bonds and interests in partnerships ("commandites") either domestic and foreign. This law also taxes the income from mortgages, time deposits and money deposited as security. This group of taxes would more properly be classified with the Direct Taxes, but we

have thought best in order to facilitate reference to the official revenue reports to follow the classification used therein.

(9) *Special Tax on Payments—"Luxury Tax":*—This tax was authorized by the law of December 31, 1917 and subsequent amendments. It imposed a tax of 10%, after April 1, 1918, upon the payment of the purchase price of any merchandise, commodity, or article whatsoever offered for sale at retail or for consumption, in any shape or form, by a merchant or by a person not a merchant, if such merchandise, commodity, or article was classed as a luxury. This tax was succeeded by the tax next described.

(10) *Turnover Tax:*—The tax on the *chiffre d'affaires*, or volume of business, was considered the most important and likely to be the most productive innovation of the 1920 budget. Following is a summary of its principal features:—

Effective:—From and after July 1, 1920, on monthly statements of the transactions, separating affairs subject to 1%, 3% or 10% tax, if the same taxpayer is subject to all three. First statement and payment to be made in September, 1920, covering two preceding months. A tax exceeding 100 francs may be paid by crossed cheque (for explanation see page 262) to the order of the revenue collector, with the words "Banque de France" between the bars.

Taxable:—"Persons who, habitually or occasionally, buy in order to resell" and those who are subject to the tax on industrial and commercial profits (law of July 31, 1917), as well as mine operators, etc. The liability of a person to pay the tax is determined finally by the collectors. but the artisan working on his own account, in his own home or elsewhere, with or without shop or shingle, the cobbler and the dressmaker, even the fisherman, are all likely to be taxed. Any operation in the nature of brokerage, as an occasional commercial operation, is taxed. Transactions in securities, which were already subject to stamp and other taxes, are not subject to the new impost, so far as the seller and the stock exchange broker are concerned, but the bank or other outside intermediary pay the tax on the amount of their remuneration.

Exemptions:—The liberal professions, subject to other taxation, are exempt, as are commercial travelers (but not commission merchants) and farmers when they sell their own produce; public service corporations charging fees fixed by the government; the sale of bread; certain forms of cooperative societies; cabs, ferries, etc., which are already subject to sufficient taxation, and a few other classes of business.

Volume, Measure of Tax:—This tax is entirely apart from any profits tax. There may be a loss on the business, but the tax on its volume is paid.

Luxuries:—Articles of luxury are taxed 10% only when sold at retail, for consumption. When sold to merchants, wholesale, the tax is 1.1%.

Foreign Trade:—Imports and, to an extent that would not hamper trade, exports are subject to the tax.

Certain types of business, such as restaurants and lodging places, have the alternative of reporting and paying annually, instead of monthly, under conditions established.

Yield:—The estimated yield of this tax in 1920 (six months only) was 2,084 million francs—the actual yield was 942 million. The estimate for 1921 was 2,700 million being at the rate of 225 million a month. The actual yield was 1,898 million being at the rate of about 150 million a month.

(11) *Customs:*—Import duties, navigation, fines and confiscations. Sugar and salt duties are not included in table figures for customs, but all receipts from these are given in items (14) and (15).

(12) *Excise (Contributions Indirectes):*—Dues on beverages such as wine, beer, cider, perry (pear cider), mead, alcohol, mineral water, pharmaceutical preparations, stearine and candles, cycles, licenses to autos, wine cellars and public passenger vehicles; tax on passenger traffic, rail and carriage; tax on playing cards, etc.

(13) *Colonial Goods and Substitutes for Coffee and Vanilla:*—Coffee, cocoa, chocolate, spices, tobacco, etc.

(14 to 17) *Salt and Sugar:*—Salt taxes are among the oldest in France, dating from the early days of the monarchy. Salt and sugar are now taxed both through the customs and through the internal revenue. The same is true of gasoline, benzol and similar products.

(18) *Monopolies and State Industries:*—In France the state has a monopoly of the manufacture and sale of chemical matches, tobacco and gunpowder. It also operates the posts, telegraphs and telephones and is in receipt of income from the net produce of the mint, the national printing press, the state railways and various other activities.

(19) *State Properties:*—The chief items are the rivers, sea fisheries, military payments, establishments administered by the state such as studs and thermal establishments, sale of state property, sale of land, profits of manufacture, unclaimed legacies and the state forest products.

(20) *Recettes d'Ordinaire:*—These include receipts from the universities; fines; amounts held back for pensions from salaries of civil officials and from naval and military officers; receipts from the contributions paid by the colonies to military expenses and from repayments made by the railway companies for loans made to them for guaranties of interest and other items.

(21) *Miscellaneous Receipts:*—Patents; railway departments for state control; repayment by departments and communes of advances made to them; loans from departments and communes for the construction of local roads and for the improvement of school buildings.

(22) *Exceptional Resources:*—Under this heading are included all unusual and adventitious receipts, such as indemnities, the share of the state in the profits of the exhibition of 1900, the sale of surplus war material, etc.

(23) *Collections in Algeria.*

Chapter XVI

The National Debt

FOUR centuries ago, in the year 1522, the first stone was laid in the debt structure of France. It was in that year that Francis I borrowed 200,000 livres, equal today perhaps to one million dollars. The purpose of the loan was to meet the expenses of war with Charles V, Emperor of the German, or Holy Roman, empire.

The last and greatest addition to the debt came with the recent war against German aggression, while previous to this the greatest addition to the debt in modern times was made necessary by the Prussian or German war of 1870-1871.

Debt During the Monarchy

The wars and the extravagances of the grand monarchs caused them always to be in need of money. They were not at all sensitive as to the claims of their creditors and did not hesitate repeatedly and arbitrarily to readjust their debts.

The Swiss banker, Necker, several times finance minister for Louis XVI and first finance minister under the revolutionary government, estimated that in 1783, the interest charge and annuities called for annual payments of 207 million francs and represented a capitalized debt of, say 3,400 million francs.

Debt During the Revolution

Ten years later the National Assembly, in order that "all fortunes in credits upon the nation might be perfectly known", provided that all creditors of the state should have

their names, and the amounts due them annually, registered in the Great Book of the Public Debt. The holders were also required to exchange the various forms of obligation held by them for new bonds of a uniform character. M. Cambon, the financier of the revolution, proposed this measure because he believed that if the people held the securities of the revolutionary government they would be interested in its stability.

Capitalizing ordinary borrowings at 5 per cent and annuities at 10 per cent., the total capital of the debt then aggregated 6,626 million francs.

Holders of the old debt who failed to present their certificates for registration and exchange, or who failed to collect the arrears of interest due them were penalized by the successive reduction of these arrears to 80, 50, 20, 5 per cent., and finally by the cancellation of outstanding certificates and arrears.

Interest on the readjusted debt was paid in assignats at their face value until February 18, 1796. After this date it was paid in assignats at the rate of 10 francs for each franc of interest due. After the abolition of paper money in July, 1796, interest was paid one-fourth in cash and three-fourths in bills on the national domains, called "three quarter bills". This was practically equivalent to the payment of three-fourths in assignats.

In 1797 the service of the debt called for 258 million francs. This was considered to be "a sum far superior to the means of the republic". Therefore, it was proposed to pay only one third of it, or 86 million and to pay off the capital itself of the remaining two-thirds in national domains. The third retained was called the "consolidated third". This third was to remain inscribed in the great book and was de-

clared to be "exempt from all stoppage, present or future". The other two-thirds was paid off, at the rate of twenty times the annual interest, in notes receivable for national domains. As M. Thiers, the great statesman and historian of this period, says, "for those who did not wish to purchase lands, this was an absolute bankruptcy". As most of the creditors of the state were too poor to buy lands this two-thirds was virtually a total loss to them.

M. Thiers claims that "this measure was inevitable". "The Republic", he says, "did in this instance as she has always done: all engagements beyond her ability she had fulfilled with lands, at the price to which they had fallen. It was in assignats that she had paid the old charges, as well as all of the expenses of the revolution and it was with lands that she had paid off the assignats. It was in assignats, that is, with lands, that she had discharged the interest of the debt, and it was with lands that she now finished by discharging the capital itself". He concludes, "measures of this nature inflict, like revolutions, much individual hardship; but people must submit to them when they have become inevitable". At the end of the Directory the one-third which continued to be inscribed in the great book of the debt, known as the "consolidated third," represented a capital of 920 million francs, calling for an annual charge of 46 million in addition to annuity payments of 29 million.

The Debt under Napoleon

One of the first steps taken by Napoleon under the consulate was to reduce the finances to order. He reorganized the debt of which there were afloat more than sixty descriptions, all more or less depreciated. These he caused to be bought up, or he directly refunded them by giving perpetual rentes

in exchange for an amount proportionate to their nominal value. These operations increased the debt charge by about 25 per cent. Thus, upon the completion of these adjustments (say 1801-1802), the annual charge was about 100,000,000 francs, which capitalized at 5 per cent would represent an amount of perhaps 2,000 million.

The effect of these sane efforts was to revive public credit and to make the moneyed classes among the staunchest supporters of the consulate.

This good beginning in the rehabilitation of the national finances was continued under the empire. Except for the refunding operations referred to above, Napoleon did not have recourse to loans until just at the close of his career. He declared them to be "both immoral and disastrous", claiming that borrowing "insensibly undermines the edifice of state, and exposes one generation to the curses of the next".

Napoleon's War Levies

The principal reason which made it possible for Napoleon to carry on war without borrowing and, in fact, without special taxation for the purpose, was the unbroken success of his earlier campaigns. This made it possible for him to compel the countries which he conquered not only to support his armies but also to make him large contributions in money and in property. The exact amount of these receipts is not known, but they must have been very large. In 1811 Napoleon himself placed the amount at more than a billion francs. Out of these funds Napoleon rewarded his officers, established pension funds for his soldiers and provided for their maintenance when in the field; provided for gifts to the new nobility, for public works and even supplemented the civil budget.

In 1813, after the disastrous Russian campaign, Napoleon made a small issue of rentes.

At the close of the Napoleonic regime the annual debt charge was 63 million francs, representing a principal sum upwards of 1,200 million francs. There was also a large floating debt of uncertain amount.

Debt of the Restoration

When the Bourbons again sat upon the throne of France it was natural that they should recognize the claims of the old nobility and others for reimbursement of losses sustained during the revolutionary period. The sum due to the army for arrears of pay and the amounts due for supplies were very heavy. There was also an indemnity of 700 million francs paid to the allies, increased to about 1,100 million by paying off the troops of the army of occupation. Therefore, the debt grew rapidly and at the time of the revolution of August, 1830, called for an annual charge of about 220 million francs. The capital of the consolidated debt was around 4,700 million francs. The unfunded debt raised the total to 5,182 million.

Debt Under the Orleanists and the Second Republic

During the 18 years of the Orleanist dynasty and the five years of the second republic, the debt increased 1,457 million francs in capital to 6,639 million, but, due to successful refunding operations, the debt charge grew only about 39 million, standing at 262 million francs on January 1, 1853.

The Debt Under the Second Empire

During the reign of Napoleon III there was a heavy increase both in the principal of the debt and in the debt charge.

It was a period of many small but expensive wars. There was the Crimean war, the Italian war, a Chinese war, the occupation of Rome and of Syria and the ill-fated Mexican expedition.

Napoleon III expended large sums on great public works. It was during his reign that Paris, as we know it today, with its boulevards and parks, its opera house and other beautiful modern buildings, was created. Other large cities likewise were beautified and their sanitary condition was much improved; roads and railroads were built.

These large expenditures for war and for social betterment greatly exceeded the yield of the taxes, necessitating important borrowing operations.

On the other hand, during this period two successful conversions of the debt were arranged. In 1852 the five per cent rentes were refunded into 4½ per cents, while ten years later these 4½ per cents were converted into 3 per cents. The first operation resulted in a saving in annual interest of 17,500,000 francs, while less than 75 million francs of capital had to be paid to dissenting creditors. In the conversion of 1862, the state made no saving in interest, but it gained a premium of over 160 million francs. However, this gain was at the expense of the heavy increase of almost 1,500 million in capital, thus precluding for a long time the possibility of further conversions. The net result of the debt financing during this period was an increase of 123 million francs in the annual charge and an increase in the capital of the debt of almost exactly 6,000 million francs.

The War of 1870-1871

The disastrous war of the seventies with Prussia and the renewed German empire added another 9,000 million francs

to the debt, and tripled the debt charge. More than half of this increase was necessitated by the payment of the five billion francs indemnity to Germany which we have already discussed in chapter XI.

The Debt Under the Third Republic

The next important increase in the debt was occasioned in carrying out a great scheme of public improvements. This was known as the Plan Freycinet, named after the minister by whom it was conceived. This plan was especially concerned with the improvement and extension of the transportation systems, water and rail.

The plan as at first conceived called for an expenditure of a billion francs. To obtain the means for its execution an issue was authorized of 3 per cent rentes, redeemable by annuities. Once the state became a partner of the railroads, it was hard to stop expenditures for their development. Likewise the highways, the water-ways, the ports and the state telegraph and telephone systems called for large amounts of capital. These were obtained by direct loans or subventions from the state or by state guarantees of company issues. In short, by the use of state credit. Thus it happened that by the close of 1913 the capital amount of the debt incurred during this period for constructive purposes must have been around 6,000 million francs.

During the period of forty years which elapsed between 1873 and 1913 the increase in the capital of the debt was 12,000 million francs. On the other hand, because of successful refunding operations, the debt charge slightly declined; from 1,196 million francs to 958 million. In 1883, a saving at the annual rate of 34 million was made by converting 5 per cent rentes into 4½'s; and without any increase in capi-

tal. In 1887, the interest on certain 4½ per cent and 4 per cent rentes was reduced to 3 per cent., without, however, any saving in annual charge. The state made a cash gain at the time of 174 million francs, but the operation involved an increase in capital of 417 million. Conversions carried through in 1894 and 1902, respectively, resulted in a reduction of the annual charge upon 6,788 million of rentes first to 3½ per cent and then to 3 per cent., without any increase in capital and with an actual saving in annual charge of over 100 million francs.

Summary

To sum up the story of the debt to the close of 1913 we find that it increased from about 2,000 million francs at the close of the revolutionary period to nearly 34,000 million francs at the close of the period of armed peace. We find that this increase in debt may be apportioned roughly about one-third to public works, such as roads, improvement of rivers, construction and improvement of canals and railroads, to construction of docks, to works of sanitation, to building school houses. In short, to works of a constructive character which added to the health, the pleasure and the industrial status of the nation. The other two-thirds of debt was dedicated to the god of war.

We have already traced, in chapters iii and iv, the history of the debt during the period of the great war and down to the close of 1921.

A comparative statement of the debt from the close of the Napoleonic regime in 1815 until today and a detailed statement of the debt as it existed on December 31, 1921, together with descriptive notes, closes this chapter.

NATIONAL DEBT

CAPITAL (I. E. PAR) VALUES 1815-1913

(In *francs*—000,000 omitted)

[Data from Annual Reports of Ministry of Finance]

December 31	1815	1830	1847	1852	1868	1873	1883	1893	1904	1913
FUNDED DEBT										
Rentes										
Perpetual	1,601	4,639	5,842	5,590	11,110	18,605	19,734	22,000	22,222	21,922
Amortissable	.....	.....	.....	.....	.....	.....	2,066	4,611	3,737	3,388
Annuities	*a*	*a*	*a*	*a*	55	1,640	2,861	2,843	3,562	6,146
Total Funded	1,601	4,639	5,842	5,590	11,[illegible]	20,245	25,195	28,866	29,421	31,456
FLOATING DEBT										
Treasury Bills	*a*	*a*	*a*	*a*	179	520	278	217	163	410
Other	*a*	*a*	*a*	*a*	743	638	1,631	930	959	1,671
Total Floating	*a*	286	631	802	[illegible]	1,158	1,860	1,147	1,122	2,081
SURETY BONDS	*a*	237	235	247	200	296	310	306	256	100
FOREIGN	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
GRAND TOTAL	1,601	5,182	6,708	6,639	12,383	21,699	27,401	30,323	30,799	33,637
WEALTH—NATIONAL	64,000	75,000	88,000	125,000	190,000	200,000	220,000	240,000	260,000	300,000
DEBT CHARGE	*b*81	223	283	262	382	1,196	1,121	1,030	924	958
INCOME—NATIONAL	5,000	6,400	8,000	12,000	20,000	20,000	25,000	30,000	32,000	37,500
POPULATION (00,000 omitted)	29.5	32.5	35.5	36	38.3	36.3	37.8	38.3	39.1	39.6
PER CAPITA										
Debt	*54*	*159*	*189*	*184*	[illegible]	*597*	[illegible]	[illegible]	*787*	*849*
Wealth	*2,170*	*2,308*	*2,479*	*3,472*	*4,961*	*5,510*	*5,820*	*6,266*	*6,649*	*7,575*
Debt Charge	*3*	*7*	*8*	*7*	[illegible]	*33*	[illegible]	[illegible]	*24*	*24*
Income	*169*	*197*	*225*	*333*	[illegible]	*551*	*661*	*783*	*818*	*947*
PER CENT.										
Debt, % Wealth	*2.5*	*6.9*	*7.6*	*5.3*	*6.5*	*10.8*	[illegible]	*12.0*	*11.8*	*11.2*
Charge, % Income	*1.6*	*3.5*	*3.5*	*2.2*	*1.9*	*5.9*	*4.5*	*3.5*	*2.9*	*2.6*

a Information not available.
b Funded debt only.
c Approximate figures.
d On currency basis.
e Including Alsace-Lorraine.

NATIONAL DEBT

Capital (i. e. par) Values December 31, 1921

(*In francs*—000,000 omitted)

For further details see numbered descriptive notes following table

[Data furnished by Ministry of Finance]

Internal Debt	Date of Issue	Interest Rate %	Interest Payable	Maturity Payable	Maturity Redeemable Price,%	Maturity Redeemable After	Capital	Interest Charge
1. Perpetual Debt								
2. Rentes	Prior to 1914	3	Q. Jan. 16	Perpetual	100	Any time	19,740	591
3. Rentes	Nov. 16, 1915	5	Q. Feb. 16	do	100	Jan. 1, 1931	20,493	1,012
4. Rentes	Aug. 16, 1916							
5. Rentes	Dec. 16, 1917	4	Q. Mar. 16	do	100	Jan. 1, 1943	9,167	388
6. Rentes	Nov. 24, 1918	4	Q. Jan. 16	do	100	Jan. 1, 1944	22,950	898
	Nov. 30, 1920	6	June&Dec. 16	do	100	Jan. 1, 1931	28,088	1,685
Total Perpetual Debt							100,438	4,574
Term Debt								
7. Rentes Amortisable	Prior to 1914	3	Q. Jan. 16	Serially at 100 to 1953	No option		2,940	87
8. Rentes Amortisable	July 7, 1914	3½	Q. Feb. 16	Serially at 100 to 1939	No option		3	
9. Rentes Amortisable	Mar. 20, 1920	5	May & Nov. 1	Serially at 150 to 1989	150	any time	12,208	790
Short Term Debt								
10. Two Year Treasury Bonds	June 8, 1921	6	June & Dec. 8	June 8, 1923	.....		5,665	340
11. Five Year National Defense obligations	After Mar. 6, 1917	5	Semi-Annual	See Note	See Note		105	5
12. Six Year National Defense obligations	After May 16, 1919	5	do	See Note	See Note		b 1,254	60
13. Ten Year National Defense Obligations	After May 16, 1919	5	May&Nov.16	May 16, 1929	100	May 16, 1924	285	13
Annuities								
14. Issued on account of Railroads	Various		Various	Various	Various			
15. To Trust Department of National Treasury	do		do	do	do			
16. To Departments and Communes for School Houses	do		do	do	do		10,156	600
17. To National Pension Fund for Old Age	do		do	do	do			
18. Sundry—Sinistrés	do		do	do	do			
Total Term Debt							32,816	1,895

b Comprises 925 million in bonds loaned to people of devastated regions.

NATIONAL DEBT—Continued

Capital (i. e. par) Values December 31, 1921

(In *francs*—000,000 omitted)

For further details see numbered descriptive notes following table

[Data furnished by Ministry of Finance]

	Date of Issue	Interest Rate %	Interest Payable	Maturity Payable	Maturity Redeemable Price %	Maturity Redeemable After	Capital	Interest Charge
19. Reconstruction Debt *a*								
(*a*) Credit National	Dec. 23, 1919	5	Jan. & July 1	Dec. 1, 1994	See Note		3,983	
(*b*) Credit National	June 15, 1920	5	June& Dec.15	June 15, 1995	See Note		3,903	795
(*c*) Credit National	Nov. 1, 1921	6	May& Nov. 1	Nov. 1, 1936	See Note		3,090	
20. Other Guaranteed Loans	See Note		See Note	See Note	See Note		See Note	
Total Reconstruction Debt							10,977	795
21. Floating Debt								
Treasury Bills, 1 year or less	See Note		See Note	See Note	See Note		60,362	2,590
Bank of France, advances	do		do	do	do		24,600	246
Sundry	do		do	do	do		2,987	100
Total Floating Debt							87,949	2,936
Total Internal Debt							232,189	10,200
22. Foreign Debt								
Political								
United States	See Note		See Note	See Note	See Note		17,356	SeeNote
United Kingdom	do		do	do	do		14,279	do
Commercial								
Japan and Other	do		do	do	do		1,010	60
United Kingdom	do		do	do	do		1,738	101
United States	do		do	do	do		1,199	156
Total Foreign Debt							b 35,563	317
Debt—Grand Total							c 267,743	10,517
Amortization Payments Proposed for 1922								1,500
Debt Charge—Total								12,017

a For details re issue of 1922 see note (19*d*).

b At exchange parities. Adjusted to average market rates of Jan. 3, 1922, the foreign debt equals 85,351 million. This would make the

c Total debt on currency basis 317,531 million francs. For comparisons with previous years 1914-1920 and comment see text and debt tables in chapter iv.

PUBLIC DEBT NOTES

(1) The "*Grand Livre*" or great book of the public debt was created by M. Cambon, financier of the Revolution in 1793. It is the record of the public debt. It is kept by a special office under the Ministry of Finance. It consists of many series of volumes. Besides the Grand Livre kept in Paris there is an additional Grand Livre for perpetual debt in each branch of the treasury.

Rentes:—The records of the Grand Livre are kept in terms of the rente or annual interest payable to the public creditor and not in terms of the capital or principal. Originally the interest was payable only to registered holders, but at the present time the public debt is issued in three ways, either (1) under a number alone in the case of coupon bonds to bearer ("Rentes au porteur"), or (2) registered in the name of the holder ("Rentes nominatives"). An "extract from the Grand Livre" or "certificate" is issued containing either (a) a sheet of coupons in the case of the bonds to bearer, which coupons are payable to the bearer thereof, or (b) a space for recording payments of interest in the case of registered bonds. Such registered certificates must be presented and stamped in order to obtain payment of the interest thereon. In certain instances there is a third form (3), known as "Mixed Rentes" which correspond to American bonds registered as to principal only. These are in registered form, but are accompanied by coupons which are payable to bearer.

As only even amounts are recorded in the Grand Livre a "promise to pay" is given in place of the certificate for any odd sum in centimes which is due to a holder. These promises to pay may be exchanged for bonds at any interest payment date whenever they aggregate a proper amount to permit the issuance of a certificate.

Rente issues are either repaid periodically by drawings ("amortissable rentes") or else they bear no date of maturity and are perpetual. The government reserves the right to redeem all or any part of most issues at a fixed price at any time after a date specified in each case.

Rentes are officially quoted on the basis of the income derived therefrom instead of on the basis of the nominal capital. For instance, fr. 10,000 nominal capital 3 per cents. is designated as fr. 300, rentes 3 per cent. The face of a French bond specifies the yearly income produced by that bond, not the principal amount or the par value of the bond itself. The denomination may be ascertained by calculating the sum necessary to produce, at the rate of interest specified, the amount of annual income stated on the face of the bond.

Interest, as a rule—whether in the form of coupons or of registered interest—is paid quarterly. In France it is customary to cut coupons two weeks before the date when they fall due. This custom often results in bonds being sold "ex-coupon" at times which seem unusual to the American investor. Coupons must be collected within five years after the date of their maturity (Law of August 24, 1793, Article

156). Failure to cash coupons within such period renders them not only voidable but absolutely void.

Bonds must be presented for payment within thirty years after the date of their maturity or redemption date, otherwise they become absolutely void.

A "Lottery Bond" is one, the holder of which receives a prize in money—irrespective of any fixed premium—provided that the number of the bond drawn for redemption corresponds to the number of the prize ticket. The laws of the United States forbid the sale of lottery bonds in this country.

(2) *3% Perpetual Rentes:*—Four issues outstanding dated respectively (1) May 10, 1886, (2) November 14, 1887, (3) January 10, 1891, and (4) December 21, 1901. They are obtainable, except (4), either as coupon bonds to bearer, or mixed or fully registered. Issue (4) is obtainable only in coupon and fully registered form. Coupon rentes to bearer are exchangeable, free of charge, for fully registered or mixed rentes. Registered rentes can only be exchanged through an *agent de change* (member of the bourse). Perpetual rentes may be obtained to yield an annual income in francs of 2, 3, 4, 5, 6, 7, 8, 9, 10, 20, 30, 50, 100, 200, 300, 500, 1,000, 1,500 and 3,000. Principal and interest exempt from all taxation, except that levied in accordance with the general income tax law (see page 189, 3a).

(3) *5% Perpetual Rentes of 1915 and of 1916:*—For terms of issue, etc., see page 18. These two issues are quoted on the Paris bourse as one loan. Issued in coupon, mixed, or fully registered form. Denominations to produce rente, 5, 6, 7, 8, 9, 10, 20, 25, 50, 100, 200, 300, 500, 1,000, 2,500 and 5,000 francs, respectively. They have the same tax exemptions and other privileges as the 3% perpetual rentes.

(4) *4% Perpetual Rentes 1917:*—For terms of issue, etc., see page 18. Issued in three forms, coupon, mixed, or fully registered. Coupon bonds to bearer issued in denominations to produce, respectively, 4, 8, 20, 40, 80, 200, 400, 800, 2,000 and 4,000 francs income per annum. Registered bonds are issued in all denominations. They have the same tax exemption as "(2)."

(5) *4% Perpetual Rentes 1918:*—For terms of issue, etc., see page 18. Issued in three forms, coupon, mixed, or fully registered. Coupon bonds to bearer issued in denominations to produce, respectively, 4, 8, 20, 40, 80, 200, 400, 800, 2,000 and 4,000 francs income per annum. Registered bonds are issued in all denominations. They have the same tax exemption as "(1)."

(6) *6% Perpetual Rentes 1920:*—Coupon bonds to bearer to produce an annual income of 6, 30, 60, 120, 600 and 1,200 francs. Registered bonds are also obtainable. They are exempt from taxation the same as "(1)."

(7) *3% Amortissable Rentes:*—The 1878 issue of these bonds made for the purchase of the secondary railway lines. Bonds to be redeemable by drawings in 75 years. Subsequent issues were made in 1881 and 1884. All issues to be amortized by April 16, 1953. Annual drawings at par to take place on March 1st of each year. An investor may apply for an even distribution of his holdings over all the series, in which case the average life of his bonds would be 18½ years after April, 1922. Issues of 1878 and 1884 coupon bonds to bearer in denominations to produce an annual income of 15, 30, 60, 150, 300, 600, 1,500 and 3,000 francs, and registered bonds to produce an annual income of 15 francs or multiples thereof. The issue of 1881 also provides for mixed rente in annual income amounts of 15 francs and multiples thereof. Principal and interest exempt from all taxation.

(8) *3½% Amortissable Rentes of 1914:*—Coupon bonds, to produce an income of 7, 14, 35, 70, 140, 350, 700, 1,400 and 1,750 francs, respectively. Fully registered bonds in denominations producing 7 francs of annual income or multiples thereof up to and including 700 francs income; from 700 francs to 1,400 francs income in multiples of 70 francs; and above 1,400 francs annual income in multiples of 140 francs income. Redeemable serially by drawings on July 1st of each year beginning in 1915. Exempt from taxation same as "(2)."

(9) *5% Amortissable Rentes of 1920:*—For terms of issue, etc., see page 18. This loan is redeemable in 60 years at 150 francs. The nominal capital is divided into series of 25 million each to be called for payment semi-annually by lot on the 16th of March or 16th of September of each year. The first drawing was effective on September 16, 1920. Bonds drawn are payable at 150%, with accrued interest, at the next interest date. Bonds not drawn are redeemable at 150% at any time at the option of the government. Coupon bonds, to produce, respectively, 5, 10, 20, 25, 50, 100, 200, 500 and 1,000 francs income per annum. Registered bonds in multiples of 100 francs principal. Exempt from taxation the same as "(1)."

(10) *Two-Year Treasury Bills ("Bons du Tresor a deux ans"):*—A new issue in June, 1921, in denominations of 500 francs. Exempt from taxation. Issued to order or to bearer. May be exchanged for new permanent loans.

(11), (12) and (13) *Bonds ("Obligations") of National Defense:*—This class of bonds was first put on sale in the early part of 1915. The first issue which would have matured in 1925, but was redeemable in 1920, appears to have been retired. The five year obligations are dated as of the first or sixteenth of the month in which they were issued and are payable five years after the date of issue, the government reserving the right of redemption one year after the date of issue and the holder having the privilege of calling for payment at the end of any six months thereafter.

The six year obligations were issued at various times after May 16,

1919. They have no specified date of maturity, but are repayable six years after date of issue, at 103. The holder has the right to demand payment at periods after date of issue as follows: 18 months at par; 2 years at 100.60; 3 years at 101.20; 4 years at 101.80; 5 years at 102.40.

The ten year obligations were issued at various times after May 16, 1919. Interest on all issues is payable in advance.

All issues are in either coupon or registered form and in denominations of 100, 500, 1,000, 5,000, 10,000, 100,000 francs of principal. The principal and interest of all issues are exempt from all taxes.

The issue of all categories of National Defense Obligations has been suspended since February 16, 1922.

(14) *Railroads*, debt for purchase of and on account of construction and improvement of state lines. Certain of the railroad lines in France are owned by the nation and others have been aided by issues of government bonds. We have grouped all of these various issues in our table. The figure given in the debt table does not represent the total capital debt of the railways, but simply the capitalization of the annuities due to the companies (and others) by the state for various causes.

(15-17) *Sundry trust funds* upon which the government makes annual payments.

(18) See (20).

(19) *Crédit National:*—The Crédit National is an institution organized under the law of October 10, 1919, with a capital of 100 million francs, to finance the reconstruction of the devastated regions. (See page 90). The bonds of the Crédit National are guaranteed, principal, interest, premiums and lottery payments by the French government. These payments are a charge upon all French taxes, present and future, and are specifically provided for by an annuity in the budget of the state. These are lottery bonds. The terms upon which the bonds are issued and payable are as follows:

(19a) *5s of 1919:*—This issue made in December, 1919, is for a nominal capital of 4 billion francs in bonds of 500 francs each repayable in 75 years at a maximum of 600 francs, but by lot. The drawings take place quarterly on the first days of March, June, September and December of each year. The Crédit National is forbidden to repay the bonds of this series before January 1, 1940. After that date they may repay the bonds in whole or in part at 600 francs for each 500 franc bond. The drawings cease when all the bonds have been called for payment. At each annual drawing prior to 1940 four bonds will be paid at 1 million francs each, four at 500,000 francs each, 20 at 100,000 francs each and 40 at 50,000 francs each; in all 68 lots for a total of 10 million francs.

(19b) *5s of 1920:*—This issue made in June, 1920, is for a nominal capital of 4 billion francs in bonds of 500 francs each. These bonds are repayable at par or by lottery in 75 years at the outside. After

the first of January, 1941, the Crédit National has the right to repay the bonds then remaining in circulation in whole or in part at par. The drawings take place as follows: There are eight drawings a year, January and July; February and August; April and October; May and November, for a total of 104 bonds having a par value of 20 million francs. Each drawing comprises the following prizes: 1 bond for 1 million francs; 1 for 500,000 francs; 2 for 200,000 francs each; 3 for 100,000 francs each and 6 for 50,000 francs each.

(19c) *6s of 1921:*—This issue is for a nominal capital of 3 billion francs in bonds of 500 francs each, repayable in 15 years at par. This issue is entitled to the benefit of annual drawings as follows: From 1921 to 1930, inclusive, two bonds reimbursable at 500,000 francs each; 24 at 100,000 francs each; 24 at 50,000 francs each; 96 at 10,000 francs each; 96 at 5,000 francs each; 6,960 at 1,000 francs each, altogether 7,202 lots per annum for a total of 13 million francs per annum. Drawings to take place on the first days of March, June, September and December. The prizes under 500,000 francs are equally divided between six series of 1 million bonds each. There are two drawings, respectively, of 10,000 numbers and of 100 numbers. The first gives the last four figures of the numbers drawn and the second, successively, the two preceding figures of each of those in the six series. Bonds remaining outstanding in 1931 are subject to drawings at par at the rate of 1 million bonds a year. The last drawing is September 1st, 1936. Bonds drawn are payable either at the Bank of France or at its branches or auxiliary bureaus.

(19d) *6s of 1922:*—Offering was unlimited. Amount sold 4,730 million francs. Bonds 500 francs each. Issue price 497. Subscription price 482 because first coupon was paid in advance.

Payable at the option of the owner at 500 francs February 1, 1924; 507 francs 50c. February 1, 1927; 525 francs February 1, 1932. Interest payable February 5 and August 5. Issued free of all taxes.

(20) *Public loans contracted by sinistrés (unfortunates) of the war and secured by pledges of state annuities:*—

(In *francs*—000 omitted)

Borrowers	Amounts
City of Reims	120,000
City of Albert	25,000
City of Soissons	80,000
City of Verdun	55,000
City of La Bassée	14,695
Department of the North	150,000
French Sugar Industries in Reconstruction	200,000
Alsatian Industries	85,000
Metallurgical Industries	500,000
Thomson-Houston Co. of Lille	185,000

Electrical Energy and Lighting Co. of the North and of the East	82,500
Metallurgical Sinistré	86,000
Reconstruction of Factories	20,362
Manufacturers of Glass and Chemical Products of St. Gobain, Chauny and Cirey	87,200
Factories for Electrical Construction at Jeumont	25,000
Co-operative Group for Reconstruction of Churches in the Diocese of Nancy	15,000
Group of Coal Operators of the Nord and Pas de Calais	1,200,000
Maison Bréquet	5,096
Co-operative Group for Reconstruction of Churches in Devastated France	200,000
Society of Miners of Lens	106,000
Co-operative Group for Reconstruction of Le Thour	14,600
	3,256,453

The amount of these loans, say 3,256 million francs, is not taken into the public debt total. They are in effect contracted by the interested parties for the immediate realization of annuities given them by the nation and figure in the debt under the head of "Annuities" (Item 18) for the sum of 3,770 million.

The annual charge is covered in the annuities charge of 600 million as given above, of which about 302 million is for this purpose.

All guaranteed, principal and interest, by the French Government.

(21) *Floating Debt:*—Treasury Bills (Bons du Tresor; Bons de la Défense Nationale) (see page 15); Bank of France advances (see pages 13, 42, 265).

(22) *Foreign Debt:*—Political: See page 136.

Market loans obtained in the United States by the French Government or for which it is liable:

Republic of France	$97,000,000	7½	J. & Dec.	June 1, 1941
do	96,000,000	8	Mar. & Sept. 15	Sept. 15, 1945

Payable at 110. Sinking Fund purchases $4 million annually at 110 up to 1925; draws by lot at 110 thereafter.

Bordeaux	$15,000,000	6	M. & N.	Nov. 1, 1934
Lyons	15,000,000	6	M. & N.	Nov. 1, 1934
Marseilles	15,000,000	6	M. & N.	Nov. 1, 1934

Market loans obtained in United Kingdom, Japan, etc.—These loans are either in the form of Treasury Bills or of Bank Credits.

Chapter XVII
Local Finance

As already explained in the chapter on government, France is divided for administrative purposes into departments, districts, cantons and communes. The first and the last of these are the only ones having budgets. The local communities are to a great degree masters of their finances. The annual budget estimates are prepared by local officials and the budgets are adopted by the local councils. However, before they become effective the budgets must be approved by the central authorities. The departmental budgets and those of the important communes must be approved by the president of the republic, and those of the small communes by the prefects.

The Receipts

The revenues of the departments and communes are derived in part from collections made for their account by the general government, in part by an allotment of a share of the taxes collected for the general government and in part from direct local imposts.

Ever since the revolution the state when collecting the old †direct and assimilated taxes has collected at the same time an additional amount for account of the departments and communes.

In 1872, out of total collections of 604 million francs, 57.88 per cent. was retained by the state, 22.46 per cent. was passed on to the departments and 19.66 per cent. went to the communes. These percentages were substantially unchanged

† See notes (1) and (2), pages 188 and 189

in 1913. In that year the share of the state was 49.98 per cent.; of the departments, 24.18 per cent. and of the communes, 25.84 per cent. In 1918 the share of the state was 27.18 per cent.; of the departments 32.75 per cent. and of the communes 40.07 per cent.

The communes also receive a percentage of the assimilated taxes on mines and on vehicles, horses and mules.

Following the war, by the law of June 25, 1920, in order to enable the communes to balance their budgets, which had grown much above pre-war levels, provision was made for the collection for their benefit of an additional one-tenth of one per cent. from the new sales—or "turn-over"—tax. In consideration of this assistance the communes were deprived of their share in the national tax replacing the octroi on alcohol and light beverages.

The following table gives the receipts and the expenses of the departments and of the communes for 1869, 1873 and decennially thereafter to 1913, also the indebtedness from 1885 to 1921.

LOCAL FINANCIAL DATA
1868-1921
(In *francs*—000,000 omitted)

Year	Receipts		Expenses		Debts		
	Departments	Communes	Departments	Communes	Departments	Communes	Total
1868	*a*200	505	*a*180	401	*c*	*c*	*c*
1873	271	*c*	221	*c*	*c*	*c*	*c*
1883	313	477	265	*c*	*b*465	*b*3,020	3,485
1893	317	710	265	675	544	3,320	3,864
1903	351	815	352	785	569	3,834	4,403
1913	613	1,071	614	1,040	1,142	4,854	5,996
1921	*c*	*c*	*c*	*c*	2,026	9,518	11,544

a For 1869.
b For 1885.
c Figures not available.

Chapter XVIII

The Finances of Paris and of the Department of the Seine

THE Department of the Seine is at the same time the smallest and the greatest of the eighty-nine departments into which France is divided. It is the smallest in area, but the largest in population and the department of greatest importance, because it is the seat of the national government.

In like manner, the great city of Paris, although one of some 36,000 communes, is the greatest of them all, not only because it is the capital city, but also because it leads in population, in wealth, in art, in banking, and also holds an important place in the industries and in commerce.

The department has a population of about four and a half million, of whom about two-thirds live in Paris and the remainder in the 22 suburban towns outside Paris, but within the limits of the department.

How Governed

The form of government of the department and of Paris differs from local government elsewhere in France in that Paris has no elected mayor but is presided over by the prefect of the Seine who is appointed by the President of France. The powers of the prefect are very great. He resides in the city hall of Paris. There is an associate prefect of police who is supreme in that department. The prefect of the Seine is assisted in matters of poor relief, in the management of the national pawn-shop and in the collection of the octroi, or local taxes on food, by special commissions.

There is a municipal council for Paris of eighty elected members, four for each of the twenty districts into which Paris is divided for administrative purposes. The principal duty of the council is to formulate and adopt the municipal budget. Its acts are subject to the approval of the prefect and in some cases of the national government.

The council of the Department of the Seine performs similar duties for the department as a whole. It is composed of the eighty Parisian representatives with twenty-two additional members elected by the suburban towns of the department.

Transportation

Paris is the center of the transportation systems of France. There are some 24,000 miles of railroad radiating from Paris in all directions, also water-ways, natural and artificial.

Paris and the Department of the Seine have a very complete system of local transportation comprising 245 miles of railways, 195 miles of motor-bus lines and 50 miles of underground railways.

All the surface lines of transportation, such as the railways and motor-buses, also a line of steamboats which maintains a passenger service on the river Seine, are owned by the department.

The river Seine, from which the department takes its name, is a navigable water-way between the English channel, at Le Havre and the city of Paris.

The Budget and Debt

The budget of the city of Paris is as large as that of many important states. We are able to present a comparative

statement covering the entire period from the time of the revolution.

FINANCES OF PARIS

BUDGET AND DEBT IN MILLIONS OF FRANCS

Year	Population (000 Omitted)	Budget		Debt at End of Year	
		Actual	Per Capita	Actual	Per Capita
			Fr. c.		*Fr. c.*
1799	531	8	*15.06*	*a*	.....
1817	713	69	*96.77*	*a*	.....
1848	946	59	*62.36*	*a*	.....
1860	1,800	103	*57.22*	*a*	.....
1878	1,988	254	*127.77*	*a*	.....
1884	2,269	262	*115.47*	*a*	.....
1893	2,448	291	*118.88*	1,905	*778.18*
1903	2,714	319	*117.15*	2,266	*834.92*
1914	2,888	482	*166.89*	2,948	*1,020.77*
1920	2,863	1,024	*357.66*	5,325	*1,859.93*
1921	2,863	1,534	*535.80*	*b*6,325	*2,209.22*

a Data not available.
b The estimated debt charge for 1921 was 258 million francs.

Similar data for the Department of the Seine are not available, but it will be of interest to note the budget figures as proposed for 1922. These are as follows:

DEPARTMENT OF THE SEINE

BUDGET FOR 1922

(In *francs*—00,000 omitted)

RECEIPTS	
Taxes	243,0
Government subsidies	115,6
Revenue from property owned	6,9
Miscellaneous	11,2
Resources to be created	62,5
	439,2

EXPENSES	
Administration	14,2
Debt Charge	78,8
Children	36,2
Aged, indigent and infirm	177,0
Roads	8,9
Buildings and other properties	2,1
Instruction	8,7
Communal subsidies	106,7
Miscellaneous	6,6
	439,2

The debt of the department on December 31, 1921, amounted approximately to 984 million francs. Loans contracted but not then actually made will bring the debt up to 1,434 million and the debt charge to 144 million. Thus the combined debt, actual or soon to be issued, of the Department of the Seine and of the city of Paris at the close of 1921 was around 8,000 million francs and the debt charge about 400 million.

Sundry Sources of Revenue

In concluding this brief review of the finances of the Department of the Seine and of the city of Paris, it may be of interest to note that Paris derives a considerable income from public utilities such as water, electricity, gas, sewers, canals. She also has many miscellaneous sources of income such as receipts from halls and markets, from abbatoirs, from cemeteries and funerals, from public properties and other municipal privileges. In some cases, however, there are net losses, for the expenses often greatly exceed the receipts.

Relief for the poor of Paris is provided for from the receipts of a special tax upon amusements. This tax, which

dates from 1699, now brings in upwards of 20 million francs a year. It covers all kinds of amusements, such as cinematographs, balls, carrousels, dioramas, theatres, café concerts, symphony and other concerts, cabarets, music halls, skating rinks, museums, and so on.

The Octroi

The octroi is a tax of very old standing in France. It is a municipal tax on food products which dates, in its present form, from the year vii of the Revolution (1798-1799). Not all foods are subject to the Paris octroi. Subject to the octroi are meats (except horseflesh), delicatessen products, game birds and poultry, preserved fish, butter, margarine, eggs, dry cheese, edible oils, vinegar. Wine and the so-called "hygienic beverages," or light drinks, are now exempt from this municipal tax, in lieu of which, as explained in the previous chapter, the government when collecting the turnover (sales) tax collects an additional one-tenth of one per cent. for the benefit of the communes.

Some opposition is raised from time to time not only to the increase of the octroi, but to its continuance. The friends of the tax claim that it is a sure source of revenue, and is not burdensome to the taxpayers. Bonuses are allowed to the very poor or to large families, to compensate them for their greater contribution to this tax, as compared with the small and well-to-do families.

The opponents of the tax argue that the expenses in connection with its collection are such that it is a very questionable source of revenue and does not compensate for the hindrance it occasions to internal trade. While these facts are substantially accurate for France taken as a whole, on account of the many small provincial towns, the eventual

disappearance of this tax, if the parliament should so decree, would constitute a serious loss to the city of Paris, as can be seen from the following figures which show the net revenue from this source for each of the past ten years:

	Francs		Francs
1912 . . .	113,774,000	1917 . . .	74,880,000
1913 . . .	114,858,000	1918 . . .	55,206,000
1914 . . .	86,081,000	1919 . . .	83,207,000
1915 . . .	63,747,000	1920 . . .	†115,559,000
1916 . . .	66,763,000	1921 . . .	†147,038,000

† Preliminary figures.

Government Assistance in Housebuilding

The city of Paris encourages the building of homes by making loans at moderate rates of interest to private building companies. The city also constructs houses on its own account which it leases to desirable tenants.

Value of Municipal Properties

The value of lands and buildings in the Department of the Seine in 1910 was 20,718 million francs with an estimated rental value of about 1,500 million. Present values must be much higher.

Chapter XIX

The Administration of the Finances

IN view of the close relationship existing in France between national, local and private finance, the reader will find this chapter to be one to which he should give close attention. It not only has an important bearing upon the chapters on national and local finance which immediately precede it, but it serves to link up these subjects with the chapters on banking which immediately follow.

Necessarily our treatment of this interesting subject must be brief. We will follow closely the very clear analysis given by M. Stourm in "*The Budget.*"

The Central Administration

Stourm tells us that the central administration of the finances in France is divided into two distinct branches: (1) Advisory and staff services immediately under the minister of finance; (2) bureaus of finance administration.

Advisory and Staff Services: These fall into ten categories, viz.: cabinet of the minister of finance; "division of personnel and materials"; "division of control of bureaus of finance administration"; "division of general supervision of finance"; "division of transfer" (supervising the movement of the cash); "division of public accounting"; "division of the funded debt"; "division of the legal bureau of the treasury and of disputed claims"; "division of the central cash office of the public treasury" and "division of central control of the public treasury."

While each one of these divisions has important duties to perform the "division of public accounting," the "division

of transfer" and the "division of supervision and control" have particularly important functions.

"*Division of Public Accounting*": This division prepares financial bills, budgets, statements, memoranda on supplementary appropriations and especially is charged with the preparation of the estimates for the budget law. It is charged with the accounting of the ministry of finance and with the publication of financial statements. One of its very important duties is to supervise the collection of the direct taxes.

"*Division of Transfer*" (*Movement des fonds*): This division is charged with the paying out of the revenues through the proper channels; with creating new sources of revenue in case of insufficient current revenues and with the supervision and control over institutions in which public credit is concerned, such as the relations of the treasury with the Bank of France, with the Crédit Foncier of France and with the Caisse des Depots et Consignations. It supervises the banks and exchanges, the bourse, the railroad companies, the savings banks, rural credits and mutual companies. "The very moment," says M. Stourm, "when one of these subjects is raised, or an incident occurs which is liable to agitate the government, or when a bill is presented in parliament, or there is a crisis, or in case of international difficulties or in case complaints of the public arise, the 'division of transfer' must, when consulted, be able to give its advice and prepare a solution."

"*Division of Control*": This division is charged in a general way with communications addressed to other ministers, or to members of parliament and of all matters which involve an expenditure or modify the present or future elements of the budget. It also performs a very delicate

function of examining, discussing and at times disapproving the suggestions made by excise officers.

Bureaus of Finance Administration

These form the second branch of the central administration. They are five in number and have to do respectively with direct taxes, registration taxes, stamp duties, with the domains, the customs, the excise taxes and state-owned industries.

Each one of these administrations is run by a director general, who is assisted by a managing board which is composed of the director general, the president and the managers. The managers are the chiefs of the various divisions into which the services are divided.

The institution of "managing boards" tends to limit the power of the director general "as it is thought that one man with no other guarantee than his personal responsibility should not decide on matters of considerable interest and on the destinies of thousands of employees of the bureaus and offices of the finance administration."

While the minister of finance delegates much authority to the different administrative departments he, of course, reserves the right of final determination.

The Collection and Disbursement of the Revenues

Unity is the principle of the public treasury. This principle has been in operation since the establishment of the treasury in accordance with the edict of March, 1788, rendered on the proposal of the famous minister, Necker. There is one central cash office located at the ministry of finance in Paris. In this office are centralized all revenue and other receipts of the treasury and from this office are made all

disbursements. However, this does not mean that all of the moneys actually pass through the office, but that they are cleared through it by the "division of transfer." The central financial administration is greatly aided by inspectors of finance who are sent to different points in order to inspect upon the spot all financial services having a public character, whether or not these services directly concern the government.

The Treasurers-General

In addition to the central service of the movement of funds and inspection (the division of transfer), the principal auxiliaries of the minister of finance are the treasurers-general who are the receivers of taxes and the dispensers of the funds of the government. There is a treasurer-general in each department (province). In each arrondissement (district), except in the capitals of the departments where the treasurers-general have their offices, there is a receiver of the finances who reports to the treasurer-general of the department in which his district is located.

Practically all of the receipts of the government pass to the Bank of France through the offices of the treasurers-general.

The treasurers-general are not only receivers of taxes, but they are also the dispensers of the funds of the government—of course as directed by the "division of transfer."

The bond uniting the treasurers-general and the central treasury at Paris is the "current account." In their account they are debited with the receipts and credited with the disbursements made by them for account of the treasury.

The treasurers-general are allowed to keep in hand a certain amount in cash to meet day to day disbursements. The proceeds of collections not required for this purpose are

deposited with a branch of the Bank of France, from which withdrawals may be made upon authorization from Paris.

Besides the district collectors the treasurers-general are assisted in their work by an army of collectors of different sorts. Most agents and collectors turn in their funds to the district office every eight or ten days, at least. The receivers of rural districts are allowed a month for this purpose.

The treasurers-general are bonded officers, responsible not only for their own errors or malpractices but also for those of the employees under their control. They are in daily touch with the treasury in Paris. Formal settlements accompanied by vouchers are made monthly, while each year during their term of service they submit to the court of accounts a statement of their administration.

The incidental and banking functions of the treasurers-general are described in a subsequent paragraph.

Authorization for Expenditures

The public expenditures are made by the disbursing officers of the treasury, the treasurers-general or their agents, and, in addition thereto, at Paris, the central disbursing cashier.

Every month the minister of finance, through the "director of the movement of funds" (division of transfer) apportions the available cash among the different ministers of the executive departments; after this apportionment these ministers are charged with the ordering of the relative expenses of their departments. The director of the movement of funds receives all the ordonnances of payment issued by the different ministers, indicates the subjects of the appropriation to which they belong, and directs payment thereof in the place where the funds are required.

Ordonnancement is the act by which the authorized official declares payable a mandate (cheque or draft) or signs a mandate of payment. It is a rule in the matter of finances in France that the ordonnateur (the one who orders the payment in writing) may never be at the same time the ordonnateur and the payer. The principal ordonnateurs are the ministers, prefects, mayors, military commanders, governors of colonies, etc. The ordonnances are called ordonnances of payment if they are remitted directly to the creditors themselves, and ordonnances of delegation if they are remitted to secondary ordonnateurs charged with the distribution among the creditors of the government of the sums which are due them. The minister of finance is himself the ordonnateur of the expenditures of his ministry.

The ordonnateur has not the power to exceed the amounts available nor to make clearances between the amounts of different subjects of his appropriations in order to make up the deficit in one by the over appropriation in another case. He can make such clearances only between articles under the same heading.

The excess of appropriations which have not been used are annulled at the end of the year for which made.

Administrative Control and Examination (Audits)

There is a periodical administrative control which works in two ways; first, every year the accounts of the ministers for the fiscal year just ended are submitted to a special commission composed of members chosen from the senate, the chamber of deputies, the council of state, and the court of accounts. This control bears on the ordonnateurs. The other periodical administrative control is that of the officials of the inspection of finances. This one bears on the accoun-

tants; that is to say, on the treasurers-general, the special receivers, the collectors, and the receivers of the financial revenues. Thus far there is a double control; the one legislative, bearing upon the ordonnateurs and their operations, without which the legislature would have no means of verifying these operations; the other administrative, bearing at the same time on the ordonnateurs and the accountants keeping up inspections. As an additional safeguard, there is a third control; this is judicial or that of the "court of accounts" to which are referred all the principal accounts for final revision.

The court of accounts was founded by Napoleon in 1807. It is a veritable court of justice, which has for its object to verify the actions of the accountants, to discharge them from their responsibility in case their management is regular and correct, or to place to their charge any balances they may be owing through fraud, imprudence, or infraction of rules; in such cases the court of accounts pronounces judgment. It is a tribunal which judges at the same time in the first and last instance for the superior accountants; for example, the receivers-general, the receivers of registration, etc.; it judges on appeal the receivers of communes and other accountants first tried by the councils of the prefecture.

One may appeal for a reversal of its judgment to the council of state for violation of the law or the nonobservance of forms. Thus the court of accounts revises in detail, by the vouchers, the administration of the accountants; it verifies the fact that there has been no speculation; that is the principal and original function of the court of accounts. It has no direct power over the ordonnateurs; that is to say, over those who order the expenditures, but have not the management of the funds. These are outside its jurisdiction. The

reason why the court of accounts has no direct power over those who order the expenditures is that it was thought the court should not encroach on the domain of the administration. If the accountants have made the payments on the orders regularly delivered, the court of accounts must make valid their payments.

Banking and Incidental Functions of the Ministry of Finance

The French ministry of finance, in addition to directing the finances of the nation, performs important fiduciary duties for the public. The agency through which these duties are carried out is known as the *Caisse des Depots et Consignations*. We may, perhaps, freely translate this title as the "trust department of the national treasury."

This unique institution bears the same relation to the national treasury that the trust department of a bank bears to the departments in which the bank's own funds are handled.

It operates very much as does a bank. That is it receives trust moneys which it invests in government bonds or deposits in the state treasury.

Thus, while these funds are carefully segregated in the accounting from the funds of the state, so as to avoid even the semblance of a possible confusion between state and private funds, yet they are available to the state in the conduct of its affairs.

Business: The mission of the Caisse is to receive, hold and repay all private funds entrusted to the state either voluntarily or under compulsion. It manages the funds of the ordinary (or private) savings banks, of the national (or postal) savings banks, and of the mutual benefit

societies, the surety bonds deposited by contractors for supplies and work undertaken for account of the state, the funds of departments and municipalities, deposits of properties sequestered or held under other court orders, the deposits with notaries and other trustee accounts. The Caisse is also entrusted with the management of the national old-age pension fund (1850) and the national life and accident insurance fund (1868), the latter being qualified, in 1899, to extend its operations in order to cover risk for accidents to employees while at work.

All these powers are derived from the same principle, since in all these cases private funds are concerned.

In creating its provident institutions the state especially aimed to encourage thrift, therefore very small payments are accepted.

Organization: The Caisse is under the direct supervision and guaranty of parliament. At the head of the department is a director-general appointed by the government who can be removed only on the motion of the board of supervisors of the Caisse. This board consists of two senators, two deputies, the governor of the Bank of France, two members of the council of state, one of the presiding judges of the court of accounts, the president or one member of the chamber of commerce of Paris, and the director of the general transfer of funds in the ministry of finance. The board can appear in both chambers of the legislature to report upon the material and moral condition of the caisse.

Profits: Profits are not sought from the insurance department, but if any accrue they are added to its reserves. Profits from the savings deposits are turned over to the reserve and guaranty funds of the savings banks. In the case of the mutual benefit societies there are no profits, because they

receive credit for the same interest as earned. Other profits belong to the Caisse, but since 1837 they have been turned into the general treasury where they form part of the "general receipts."

Agents: The Caisse has no branches. It operates wherever there are treasury agents. Acting as officials of the Caisse, they effect transactions in the provinces as if they were effected in Paris. The accounts are centralized in Paris and periodically settled.

Banking Functions of the Treasurers-General

In addition to their duties as officials of the ministry of finance the treasurers-general do a restricted banking business. This is a relic of the time prior to the revolution of 1788 when these officials were really bankers who "farmed" the revenues. That is, in lieu of a lump sum paid to the treasury, the treasurers were authorized to collect the revenues and to keep for their own use whatever they collected above the sum contracted to be paid by them to the treasury. Even after the revolution, and until a comparatively recent time, they had eighteen months in which to pay over their collections to the treasury. Thus it often happened, both before and after the revolution, that these officials were loaning money to the treasury, and receiving a good interest therefor, which came from state funds in their possession, but which they were not obligated to pay over for months to come.

Today they are authorized to receive deposits from private people on the condition that they place the funds at the disposal of the government. They also are authorized to receive stock exchange orders for all French stocks, but not for foreign stocks. They are no longer allowed to dis-

count paper or to make advances upon collateral. The deposits are paid into the Bank of France for account of the treasury.

Other Functions: The treasurers-general represent the Caisse des Depots et Consignations. They act as agents for the Crédit Foncier, in that they receive the annuities paid by the different municipalities to the Crédit Foncier and deposit them in turn with the Bank of France, to the credit of the Crédit Foncier. They act as intermediaries between the savings banks and the Caisse des Depots et Consignations in that they will receive the funds of the savings banks and deposit them in the Bank of France to the account of the Caisse des Depots et Consignations; they also act as intermediaries for the city of Paris; they pay the coupons on other municipal bonds. They also receive subscriptions for government bonds and cash coupons therefrom.

The Notaries

These are public officers, sworn agents, who have power to give authenticity to deeds. They are authorized to receive funds from private people. They also receive funds held subject to litigation. They are required to place all such funds in the Caisse des Depots et Consignations. They do not do any banking business, but they may be called upon to manage estates, while frequently it is through them that mortgage loans are negotiated with the Crédit Foncier of France.

Chapter XX

History of the Bank of France

THE Bank of France has been described as "a state institution in the form of a limited liability company."

Founded by Napoleon I in 1800

It was founded by Napoleon on January 18, 1800, as successor to the business of an older institution, the Bank of Current Accounts, founded June 29, 1796 with a capital of five million francs. This bank had prospered and Napoleon decided that under a new name it should extend its field of operations. The shareholders voted the dissolution of the bank on the day above mentioned and the Bank of France was immediately organized. The new bank had a capital of 30,000,000 francs in shares of 1,000 francs each, of which 5,000 were taken by the state. Napoleon himself subscribed for thirty shares of the stock, and his example was followed by many distinguished persons of his entourage.

The operations of the new bank were similar to those of its predecessor, with this difference, that the Bank of France had intimate relations with the government for which it has always acted in various ways as financial agent.

The early history of the bank is closely associated with the name of Napoleon. M. Mollien, his minister of the treasury from 1806 and administrator of the sinking fund prior thereto, recounts, in his memoirs, many interesting facts about Napoleon's active interest in the affairs of the bank.

M. Mollien speaks of Napoleon's "insatiable need to be

the center of all affairs, the sole principle of action and impulsion with regard to all persons and things." This habit characterized his interest in the organization and development of the bank, an interest which soon developed into almost a complete domination of its affairs. Fortunately, Napoleon realized his lack of knowledge of finance and was willing to be guided by the advice of Mollien and others more expert in such matters. Fortunately, also, Napoleon's own judgment was fundamentally sound. During the revolutionary period he had seen the danger of unlimited note issues based on the needs of the state rather than upon the requirements of commerce. However, he could not wholly understand how it was that one who could make and unmake empires could not control the operation of the laws of finance.

Shortly after the organization of the bank Mollien, who did not fully approve of the business plans which had been formulated for its conduct, addressed a memorandum to Napoleon in which he set forth his views. We need not discuss this paper here, except to note that the principles of banking summarized therein would today be endorsed as essentially sound. Take, for example, this one paragraph, "when there is a superabundance of real money that which is superfluous easily takes another form; but when there is a superabundance of artificial money, that which is superfluous debases and lowers the value of the entire output"; or this, "a bank which discounts only regular bills of exchange and keeps them to cash them in when due, thus giving in exchange the equivalent of its currency, never runs the risk of unduly increasing the sum total of its currency, * * * but when its discounts are applied to bills of exchange which are not the result of real and necessary transactions and, when due,

are to be replaced by fresh bills of a similar nature, it is then unduly increasing the bulk of the currency, and it follows that this excess circulation is inevitably driven back to its source" * * * or this, "in the privilege of issuing notes to bearer a bank is in possession of the best credit in commerce, but it must be ready at any time to convert these notes into real money."

Mollien, in this paper, criticized the government for having granted to the bank, without charge, the valuable privilege of note issue when "this privilege could with justice have been sold or farmed out, like many others." On the contrary, he says, "the consular government, far from taking this advantage, has not even asked the bank to make advances to it." He points out that the government itself even supplied one-sixth of the funds required to form the capital of the bank, while the Bank of England was required to loan half of its capital to the king.

In reply to this memorandum Napoleon wrote to Mollien, "For the first time I hear the bank censured as to organization and in regard to what the government has done for it. I seek results, not doubts, positive good, not ideal better. The world is old, let us profit by its experience. * * * Revise your note, simplify, clarify it. I do not like to upset what I have done. One must avoid contradicting oneself, which tends to loss of authority. * * * I have received many notes on banks, all unsatisfactory, go over them and report to me."

For some five months Napoleon left Mollien severely alone, some spiteful person having repeated to the first consul that Paris regarded Mollien as his "tutor in finance." However, a little later on, Napoleon sent for Mollien and asked him a number of pertinent questions in regard to the

affairs of the bank. He did not like the competition of three banks all issuing paper money. He said, "Have you not told me that the preservation of credit demanded that an artificial money like that issued by banks should come out of one source only? I adopt this idea. One bank is easier to watch than several; for the government and for the public; whatever economists may say, competition is useless here. Busy yourself with a new plan of organization for the Bank of France in line with the preceding ideas; submit it to me only."

The Charter Amended in 1803

Mollien drew up amendments to the charter of the bank which the regents were ordered to deliberate upon. Shortly Bonaparte enquired whether the amendments had been accepted, saying, "I do not wish three competing banks * * * I will call a council of the regents at once." Napoleon was much impressed by a remark made by Talleyrand at the meeting of the council: "The government must above all furnish security to the holder of the notes, that is to say, to the public; it would weaken the security if it liberated the stockholders from rigorous terms of discounting."

Following this meeting, by the law of April 14, 1803, the charter of the bank was amended to give "the association formed at Paris under the name of the Bank of France the exclusive privilege of issuing bank notes upon conditions set forth in the present law." These conditions were: that stockholders should not have any special right to the discounting privileges of the bank; that the capital should be 45,000 shares of 1,000 francs each; that annual dividends should not exceed 6 per cent. and that surplus profits should form a reserve which should be invested in 5 per cent. rentes,

the income from which should be divided among the stockholders in addition to the dividend. A discount committee was created to be composed of twelve merchants to be selected by the censors from among the stockholders; one-fourth to retire each year, with the right of re-election.

The competitive banks were compelled to discontinue their note issues. One of them was merged with the Bank of France by an exchange of stock. The other continued in business simply as a bank of discount.

The statutes of the bank were revised to provide that note issues should only be made upon authorization of two-thirds of the regents and with the approval of the censors.

Discounts were to be limited to notes and bills of exchange signed by merchants, traders, manufacturers and other reputable citizens of Paris. Three signatures were to be required, or two if secured by bank stock; but, on no pretext, were bills of exchange to be discounted which were created collusively and without real value.

This law also provided that no departmental (provincial) bank was to do business unless authorized to do so by the central government.

The Crisis of 1804-'05

Notwithstanding the safeguards with which Napoleon had endeavored to surround the management of the bank and despite the fact that there was now only one bank of issue to watch, instead of three, both the affairs of the bank and those of the national treasury drifted into a bad state during the year 1805. The trouble began in the latter part of 1804. In order to balance the national budget for the fiscal year September, 1803, to September, 1804, it was necessary, in the early part of the year, to find a way to

anticipate revenues which could not be realized until toward the end of the year. A pernicious custom of long standing gave the treasurers-general (collectors of the revenues) 18 months in which to account for each year's collections. Thus they had the use of the money of the state, free of interest, for six months beyond the time when collections were made. This was a valuable perquisite of the collectors but it worked great hardship upon the national treasury. Treasury bills had not come into vogue, in fact, notwithstanding that Napoleon had labored hard and successfully in the rehabilitation of the finances, the treasury had not yet sufficiently gained the confidence of the banking community to be able to issue any paper whatever in its own name. The bills of the treasurers-general, bearing the acceptance of responsible parties, and repayable at the office of the sinking fund in case of protest, had alone obtained confidence. Even these bills could not be discounted with bankers. A market for them could be found only with adventurous note brokers at high rates of discount.

The minister of the treasury, M. de Marbois, endeavored to escape from the clutches of these persons by arranging with the treasurers-general themselves to discount their notes. However, their resources were limited and M. de Marbois was glad to avail himself of the offer of a group of three speculators of large fortune and acknowledged business standing to keep the coffers of the treasury filled pending the realization of receipts from taxation. Their offer was particularly satisfactory because it contemplated enabling the treasury to realize a subsidy due from the Spanish government, but which Spain had been unable to pay because her own finances were in bad shape. New indirect taxes which had been laid, in addition to the regular tax receipts from

real property, were expected to come into the treasury in time to enable the state to meet its obligations when due, even if the Spanish subsidy did not materialize. Therefore this seemed to be good business for all concerned.

These speculators operated as a firm under the name of Associated Merchants. Pending the realization of their operations in Spain which were intended to enable that country to pay its debt to France, the Associated Merchants obtained an advance from the Bank of France.

All would probably have worked out satisfactorily but for the fact that, in December, 1804, war was declared by England against Spain. This greatly interfered with the plans of the Associated Merchants by seriously complicating the problem of the collection of the Spanish subsidy. However, they so thoroughly gained the confidence of M. de Marbois that he practically turned over to them the treasury management, only to find a few months later that they had borrowed from the bank upon the security of the tax collections of the treasurers-general and then had taken these collections directly from them, substituting their own paper. Thus it was that when the bank presented for payment the notes of the treasurers-general it was paid in notes of the Associated Merchants, or of one of their number, instead of with cash.

Napoleon was then engaged in his Italian and Austrian campaign and rather than cut off his resources and take the chance of a possible return to the conditions of anarchy which were still fresh in their minds, the management of the bank decided to continue their advances to the government agents—the Associated Merchants. To do this it became necessary to restrict advances to the business public. This resulted in much hardship and a number of failures. Meanwhile the note issues became redundant, the note holders

became suspicious and the bank soon had a run on its hands which was only kept in check by limiting payments of notes to 600,000 francs a day, a partial suspension of payment. As the year 1805 came to an end conditions were very black indeed, when all was suddenly changed for the better by Napoleon's victory at Austerlitz.

The Bank Brought into Closer Relations with the State in 1806

In January, 1806, Napoleon returned to Paris in triumph. This was on the evening of the 26th. The very next morning he called a meeting of all those who had been concerned in these transactions and took drastic action to place the finances of the nation and the affairs of the bank upon a sound basis. To the trembling and agitated group—the minister of the treasury (M. de Marbois) and the three speculators—Napoleon said: "I see how it is. It was with the funds of the treasury and those of the bank that the company of Associated Merchants calculated on providing supplies for France and Spain. And, as Spain had nothing to give but promises of piastres, it is with the money of France that the wants of both countries have been supplied. Spain owed me a subsidy, and it is I who have furnished her with one. Now Messieurs Desprez, Vanderburghe and Ouvrard" [the three speculators, the Associated Merchants] "must give up to me all they possess; Spain must pay me what she owes them, or I will shut up those gentlemen in Vincennes and send an army to Madrid."

He then dismissed M. de Marbois and handed over the administration of the treasury to M. Mollien who held that important post for the remainder of Napoleon's reign.

We note in passing that M. Mollien succeeded in collecting the entire amount due from the Associated Merchants which, when the accounts came to be made up, proved to be over 141 million francs. Of course, the advances of the bank were repaid. However, the emperor determined to prevent the occurrence of such trouble and therefore, he gave to M. Mollien the double task of reorganizing the administration of the treasury and that of the bank.

Napoleon said that the bank belonged not only to the stockholders but also to the state, since it was from the state that it derived its note issuing privilege. Therefore he decided to put the bank under the control of the state, but "not too much so." The affairs of the bank were placed in charge of a governor and two deputy governors appointed by the head of the state and other provisions to insure state supervision were adopted. In consideration of this arrangement the charter of the bank was extended for twenty-five years beyond the fifteen years of its original privilege and the capital was raised to 90,000 shares of 1,000 francs each. The bank was empowered to open branches in the provinces and its exclusive right of issuing notes was extended to apply to any town where it had a branch. These events transpired in 1806.

The emperor himself did not scruple to interfere in the affairs of the bank. He kept up a running correspondence with Mollien in regard to discounts and branches. He personally forced a reduction in the discount rate, in 1806, to 5 per cent. and, in 1807, to 4 per cent.

The Bank and the Provinces

Napoleon wanted the bank to open branches at other points than Lyon and Rouen where branches had been established.

In his progress through the provinces he encouraged the business men to expect that the benefit of the bank's services would be extended to the provinces. In figurative language Napoleon said to the Bank of France, "with the propensity which exists in our country to centralize everything in Paris, to centralize there payments as well as the government itself, the bank ought to become there the greatest of commercial agents; it ought to be truly worthy of its name, and to become for Paris what the Thames, which conveys everything to London, is for London."

In 1810 Napoleon was urged by delegations from Lille and from other cities to require the bank, in accordance with his implied promise, to open branches therein and to establish low discount rates. With difficulty Mollien dissuaded him from ordering the establishment of such branches. Finally Napoleon said to these people, "You shall have something better than branches of the bank, I will decree a special bank to every town presenting me with a list of good stockholders and proving to me that its merchants desiring discounts have each year several millions of good bills of exchange negotiable in said town." This was not what the envoys expected, but it was all that could reasonably be promised. Naturally merchants exclaimed against paying the bank's correspondents 6 per cent. on bills that the bank discounted for the latter at 4 per cent. They would have preferred branches of the bank directly discounting for them at 4 per cent.

Napoleon was led to take this position by a celebrated note addressed to him by M. Mollien in which the latter set forth very clearly the underlying principles of good banking practice and the danger of entrusting the delicate responsibility of discounting to agents located at points far distant from the central institution. It must be borne in mind that

in those days there were no quick means of communication, no railroads, not very good wagon roads, and, of course, no telegraph or telephone. The provinces were destined for some years to be without adequate banking facilities.

Napoleon Invests in Stock of the Bank

When his personal interests were concerned Napoleon, like less famous men, was not wholly consistent. The management of the bank, finding it difficult to earn 6 per cent. dividends upon the increased capital of 90,000 shares, bought up a sixth of the shares, thus reducing the outstanding amount to 75,000. Napoleon was looking for a safe investment for personal funds called by him "domaine extraordinaire." He proposed to buy the "bought in" shares. The regents had forgotten that the capital constituted a fixed security as regards the public, which could not be reduced by their sole action, notwithstanding, the reduction was quite reasonable and not to be set aside merely for the personal convenience of the head of the state. Napoleon drew up an analysis proving that a bank had no right to diminish the number of its shares. However, he limited the portion he took over to 6,000 shares. These were still a part of the "domaine extraordinaire" at the restoration, but disappeared between 1814 and 1815.

The Bank in 1814

The most serious set-back to the operation of the bank, after its reorganization in 1806, came eight years later in 1814 when, on the invasion of French soil by British troops, the bank suspended operations for some weeks. Fearing its assets would be confiscated, the council ordered the burning of notes on hand and invited the depositors to withdraw

their balances. At this time the reserves fell from nearly 39 million at the close of 1813 to five million, the note circulation from 86 million to 10 million and the deposits from 15½ million to 1,300,000. However, the recovery was rapid so that by the close of 1814 the reserves stood at 82 million, the note circulation just under 60 million and the deposits at nearly 13½ million. Thus the bank passed safely through the crisis of the change of government, just as it has done in every subsequent political crisis through which the nation has gone. After each such crisis the bank has emerged stronger than before and more thoroughly intrenched in the confidence, not only of the people of France, but of the banking interests of the world.

The Bank Under the Restoration

In 1815, after the final downfall of Napoleon, an indemnity was imposed upon France of 700 million francs and foreign troops were billeted upon her soil until it should be paid. The cost of this army of occupation, which was also collected from France, brought the entire burden up to 1,100 million francs. By the skillful negotiations of the Duc de Richelieu, the allied troops were withdrawn in 1818, although 265,000,000 francs were still due. For this balance, 100,000,000 in rentes were accepted by the allies and for the remainder they took short time engagements guaranteed by the Messrs. Baring of London and Hope of Amsterdam.

The demand for capital to meet the foregoing payments in France, and for reaching adjustments required once more to put commercial and financial affairs upon a wholesome basis elsewhere in Europe, produced very unsettled conditions in the world of business between 1815 and 1818. Discounts by the bank which in 1815 aggregated only 204 million francs,

rose in 1816 to 421 million, in 1817 to 582 million and in 1818 to 727 million. These figures reflected a corresponding increase in home and foreign trade. M. Levasseur, in his history of French commerce, refers to this period as one of unbridled speculation in England and of abnormal inflation at home. A bad harvest and the over-extension of speculators in commodities and securities brought matters to a head in the latter part in 1818. The management of the bank, instead of pursuing the more enlightened policy of discounting freely at high rates and thus breaking the force of the storm, pursued the opposite course of leaving the discount rate unchanged, but of severely restricting discounts. The result was to accentuate the trouble. Consequently there were many failures.

Under the unsettled conditions prevailing in 1815 and 1816 the bank found it difficult to earn a satisfactory dividend upon its capital which again had been increased to 90,000 shares. Therefore it bought up in the market 22,100 shares, thus reducing the shares in the hands of the public to 67,900. It is recorded that 1,000 shares were purchased from Napoleon in 1815 at 787.50 francs each. These purchases were made by the authority of the stockholders and were approved by the government. In 1823 the reduction in capital was formally legalized.

As the branches which had been opened in Lyon and Rouen proved to be unprofitable, authority was obtained from the government of Louis XVIII to close them. In their place the government procured the establishment of departmental (provincial) banks. They were the Bank of Rouen, the Bank of Nantes and the Bank of Bordeaux. These were banks of discount, deposit and note issue, but the privilege of discount was limited to Paris, the home city and contiguous

cities, while the notes might only be circulated locally. The Bank of France was jealous of these banks and used its great influence to keep their operations within narrow limits.

The Bank in the Reign of Louis-Phillipe, 1830-1848

The revolution of 1830 had no unfavorable effect upon the fortunes of the bank. During this reign there were two commercial crises which entailed great distress upon the business community and called for special measures of alleviation.

The first of these was due to fear that the new government would not be permanent and that the nation might expect a period of political unrest.

That of 1837 was a reflection of the crisis in America brought on by the opposition of President Jackson to the Bank of the United States.

In 1830, as the bank under its statutes, could only discount three name paper, parliament voted a credit of 30 million francs to be used in discounting two name paper. Parliament also created a special institution known as the *Comptoir d'Escompte* to handle these loans. This provisional bank which functioned from October 26, 1830, to September 30, 1832, acted as an intermediary between the business community and the Bank of France; it furnished the third name and rediscounted its paper with the bank. In the 23 months it discounted more than 37,000 bills, valued at over 20 million francs.

During this period, because of the failure of the Bank of France to meet the expanding commercial needs of the provinces, several more provincial banks were organized, the majority of them between 1835 and 1840. The success of

these banks was so great that the Bank of France was stimulated to again avail itself of its right to establish branches. In 1840, when its privileges which were to expire in 1843 were renewed to December 31, 1867, it succeeded in securing legislation which prohibited the organization of any new departmental bank and forbade the extension of the privileges of any such bank except by special legislation. By the ordinance of March 25, 1841, which fixed the status of its branches, the sole right of note issue in cities in which its branches were located was confirmed to the Bank of France.

After the crisis of 1837 France enjoyed nearly ten years of generally prosperous conditions. Her home industries, in which agriculture predominated, flourished. The business with the colonies became increasingly worthwhile and foreign trade doubled.

The development of railroads was an important feature of this epoch. In 1831 there were only 24 miles of railroad in France, in 1837 less than 100 miles, in 1847 over 1,000 miles. If the construction had been too slow at first it became over rapid toward the end of the period. This rapid development dated from 1842 when the state intervened as an associate of the railroad companies. With this backing it was not difficult to attract capital, of which there was a plethora during these years, into the field of railroad construction. By the end of 1846 nearly 2,000 million francs of railroad securities had been issued, and liquid capital became scarce.

In the latter year there was a crop failure in most European countries, especially in France and in England. It became necessary to seek wheat in foreign countries. This caused a heavy drain of specie from France. From July, 1846, to the end of January, 1847, the reserve decreased 173 million francs, to less than 70 million. This compared with customary hold-

ings of over 270 million. The management of the bank felt that immediate steps must be taken to remedy this condition. Some gold had been obtained in London by the sale of 20 million of rentes through the Barings. This measure proving to be insufficient, negotiations were perfected with the Russian imperial treasury in March, 1847, to purchase 50 million rentes. This transaction gave the bank a large credit with which to pay for grain, and thus materially helped the situation at home.

In January, 1847, both the Bank of France and the Bank of England raised their discount rates to 5 per cent. The Bank of England in September again raised its rate to 6 per cent. On the other hand, in December the Bank of France restored the 4 per cent. rate which, with the exception of this one year, it had uniformly maintained ever since 1822. The year 1847 proved to be one of quiet in French business circles. The failure of three railroad companies ended much construction work for the time, thus reducing the demand for capital. The harvests of 1847 were more satisfactory. By the end of the year business was resuming its normal course.

The Bank in the Revolution of 1848

Hardly had business begun to breathe freely after the trying days of 1846 and 1847 when the revolution of 1848 broke out. We are told that the private bankers lost their heads completely, writing to their correspondents in the provinces that they were obliged to stop business and go into liquidation.

So far as Paris was concerned, the entire burden was thus thrown on the Bank of France which met the situation intelligently and courageously. Notwithstanding large with-

drawals by the treasury to meet its obligations and by the departmental banks for the necessities of their clients, the bank discounted freely for all solvent borrowers. After losing 60 per cent. of its specie reserve the bank asked, and obtained from the government, permission to make its notes legal tender throughout the country, and to allow it to suspend redemption in specie. The bank also received permission to issue 100 franc notes; the smallest denomination theretofore allowed had been 200 francs. It was not thought advisable to issue small notes, but the bank supplied specie for the pay-rolls and for the purchase of provisions.

The departmental banks also received permission to issue legal tender currency and notes in denominations as low as 50 and 25 francs. However, this measure was a mistake, as the departmental banks could only circulate their notes in the town where they were located. Therefore these notes were of no value in making transfers from town to town or in transferring government funds to Paris. The Bank of France, on the other hand, could perform such services. The result was to paralyze the operations of the departmental banks. Hence the government decided to withdraw their privileges and to merge them with the Bank of France. Thus finally was established the monopoly of the latter institution as the sole bank of issue. Its stock was increased by 23,350,000 francs, the amount of the combined capital of the departmental banks; this raised its capital to 91,250,000 francs. The absorbed banks became additional branches. The authorized note issue of the Bank of France was likewise increased from 350 million francs by the sum of the note issues of the absorbed banks, thus being raised to 525 million. Specie payments were resumed at the close of 1848. Legal tender rights were withdrawn in August, 1850.

The Bank During the Second Empire

Napoleon Third inaugurated in 1852 many important measures of an industrial and artistic nature. Many additional miles of railroad were constructed, public roads were rebuilt and important public works of many kinds were undertaken. The bank lent its support to these enterprises, especially to the further development of the railway system of the country, and in 1858 it opened subscriptions over its own counter for obligations of the railroads, the proceeds of which were used to pay the expenses of the extension of their lines. This assistance from the bank was continued for several years with handsome profits to the bank and great benefit to the railways and indirectly therefore to the country.

The privilege of the bank was extended in 1857 for 30 years from 1867, the then date of expiration, and the capital was doubled, increasing it to 182,500,000 francs.

The Bank and the Franco-Prussian War

In 1870-1873 at the time of the war with Prussia the provisional government was given a credit of 2,000 million francs. Of this credit the treasury availed itself of 1,470 million francs. Reimbursement was made gradually in annual installments, payment not being completed until 1877. The government of M. Thiers was also materially assisted in financing the payment of the 5 billion franc war fine exacted by Germany.

To effect these advances the bank increased its note issues 366 million francs in 1870, 561 million in 1871, 353 million in 1872 and 181 million in 1873. This was a total increase of 1,461 million, about the equivalent of the advances to the nation. We may observe in passing that the circulation of the bank never returned to the pre-war amount—1,360 million

at the end of 1869—but thereafter remained substantially on the new level.

However, while the bank did not after the war materially reduce the amount of its outstanding notes it did immediately take steps to build up its specie reserve. This amounted at the end of 1869 to 1,263 million francs, almost 100 per cent. of the notes. At the end of 1870 it had fallen to 505 million, under 30 per cent. It then gradually began to increase, reaching 634 million at the close of 1871, 790 million at the close of 1872, dropped to 750 million at the close of 1873, jumped to 1,331 million at the close of 1874 (about 50 per cent. of the notes) and then by the end of 1876 was 2,182 million (close to 90 per cent. of the notes), making them again practically a specie certificate.

From August 12, 1870 to January 1, 1878, specie payments were suspended and the notes of the bank made a legal tender. The able manner in which the bank handled its note issues during this period has been highly commended as "so prudent and cautious that few, if any, of the dangerous results of the forced circulation of paper followed." During the course of this time there was a slight, but not important, variation from the normal rate of the foreign exchanges exemplified in the rate between Paris and London and there was a slight, if any, alteration in the prices of commodities.

The Bank under the Commune in 1871

In the months of March, April and May, 1871, Paris was in the hands of the commune. During this period the administration of the affairs of the bank was directed by the governor, M. Rouland, from Versailles, to which place he had been summoned by the government. He maintained order in the branch banks and was able to do much to protect

the interests of the main bank and to contribute to its safety. The under-governor, the Marquis de Ploeuc, and the directors remained in Paris and skilfully parried the demands of the communists, who, after having spent the funds which they found in the ministry of finance, some 4 million francs, and the produce of the daily receipts from customs, octroi, etc., turned their attention to the bank and demanded large advances. The directors succeeded in satisfying the communists by advances of small sums from time to time. They were allowed to draw out in installments the sum of about 9,400,000 francs which was on deposit to the credit of the city of Paris. When this was exhausted the bank, with the approval of the ministry of finance at Versailles, gave the communists further sums, but only under threat that if the amount demanded was not delivered the bank would be immediately invaded by the communal guard. The total sum given to the communists reached over 16 million francs. Eventually the state and the city of Paris made themselves responsible for a part of this amount, but the remainder the bank had to charge to profit and loss.

At one terrible moment it seemed as if the bank property would be raided as it was claimed that the crown jewels were lodged there, and the communists demanded their surrender. Happily the bank escaped with a fright only. We are told that even during this period the bank continued its advances to the government, loaning it as much as 415 million francs.

The Bank Liberalizes Its Policy—1897 to 1913

The privilege of the bank was extended in November, 1897, for 23 years.

In 1897 and 1911 the bank took a series of measures with the object of enabling as large a number as possible of manu-

facturers, tradesmen and farmers, to obtain immediate access to its offices. The chief of these measures were: the admission for discounting of the bills of agricultural syndicates; the lowering of discountable bills to a minimum of 5 francs in value; the acceptance of bills payable in French colonies or abroad and of agricultural warrants and of bills payable in any one of the towns where the bank undertakes to collect bills; also allowing the same deposit of securities to serve in place of the third name for discounts or as collateral to loans.

Besides these, other facilities were given to clients, such as allowing, in certain special cases, of an easy interpretation of the clause in the statutes limiting discounts to bills due in three months and reducing the number of signatures required to two. In this way the number of discount accounts in sixteen years (1897-1913) rose from 3,387 to 21,426, and discounted bills from 14 million to 30 million, representing a total value of 10 to 20 billion, in which the figure for bills below 100 francs went up from 33 per cent. to 50 per cent.

Between 1897 and 1913 the increase in every day cash transactions, most of which are free of charge, was also very great, the treasury's current account rose from 6 to 13 billion, the number of banking accounts from 27,304 to to 147,800, the amounts of clearing transactions from 86 to 310 billion. Credits transferred, in connection with accounts opened at two different branches, increased from 2,833 millions (1898) to 10,345 millions (1913), owing to the usual charges for commission being done away with. The use of crossed cheques was permitted, even before legally sanctioned, and they were cashed free of charge. The general circulation in cash, through payments made out of or received into the bank, rose from 124 billion (1897) to 381 billion (1913). During the same period the number of deposited securities

rose from 8½ million to 15 million; and 324 new establishments (branch banks, auxiliary offices, and towns having connection with the bank) were founded, or organized. These figures give some idea of the immense amount of work done for the people by the Bank of France during the years preceding the war.

The Bank During the Great War and Since, 1914-1921

During the financial crisis which prevailed in all the belligerent countries during the last week of July, 1914, the bank was able to rise to the occasion and meet, unhesitatingly, all the demands that the country made upon it. As the withdrawal of deposits from the banks increased, the amount of commercial bills presented for discount rose from 1,583 million francs (July 27th) to 3,430 million (August 3rd). In spite of the coming into force of various moratorium decrees, it continued to discount commercial bills, and so enabled the banks and private individuals gradually to meet their liabilities. It made the treasury, for the first expenses of the war, an advance of 2,900 million francs, to which were added 100 million francs advanced by the Bank of Algeria. Owing to the prolongation of the war and the heavy expenditure of all kinds resulting from it, and in spite of the success of the direct issues of bills and bonds to the public, the total sum of the advances made by the bank to the state increased little by little, until at the close of the war it exceeded 26 billion, not including 3,500 million in treasury bills discounted by the bank to provide for loans to Russia and other allies of France. This increase which necessitated a corresponding augmentation in the issuance of fiduciary currency led to the making of provision for special reserve funds, which will

facilitate the redemption of the debt incurred by the state to the bank.

By active propaganda, by the increase of the facilities of its central and branch offices and by opening many special offices, also by arranging to make liberal advances to subscribers at attractive interest rates, the bank greatly aided in the successful flotation of government loans and sales of treasury bills. Valuable help also was given toward the revival of the economic life of the country. By advancing 250 million, in September, 1915, the bank facilitated the settlement at the bourse, which had been postponed since July, 1914. Moreoever, all the gold sent abroad was put to the state's account, enabling it to obtain a credit for three times the amount of such deposits, also the bank gratuitously accepted the management of foreign loan securities lent to the state, and gave guarantees for opening private commercial credit accounts in Great Britain, the United States and in several neutral countries.

The amount of business cleared by the bank for the state from 1914 to 1921, inclusive, totaled over 1,963 billion francs. These figures include deposits and withdrawals on the treasury accounts, clearings of funds effected in Paris and in the departments, remittances of bills for collection, collection of orders, issues of treasury bills and payment of coupons of treasury bills and payments by transfers of orders for the use of creditors of the state and of the departments having accounts open at the bank. All of these transactions were made free of charge.

The bank negotiated large commercial credits in London and New York and by sales and loans of gold obtained important advances for government account from the Bank of England, in the United States and in neutral markets.

The bank also took a leading part in arranging the $500,000,000 Anglo-French loan in the United States, also in negotiating here the sale of the City of Paris and French Cities loans. It negotiated large commercial credits in London and New York and by sales and loans of gold obtained important advances for government account from the Bank of England, in the United States and in neutral markets.

An independent private institution possessing its own capital, governed by a council of regents, under the experienced and able leadership of a governor and sub-governors appointed by the state, the Bank of France has been managed with liberal foresight and discretion, thus assuring the soundness of its credit and its ability successfully to fulfill its function as the center and foundation of public and private finance in time of peace and through the ordeal of war. Its strength of endurance in days of stress, its patriotic assistance to the national treasury, and the beneficial influence it exercises in the different branches of industry, have won for it the well-deserved gratitude of the people of France and the admiration of financiers the world over.

As a practical evidence of appreciation, parliament in 1918 renewed the privilege of the bank for another quarter century, dating from December 31, 1920, while in December, 1920, the state entered into a solemn compact with the bank to begin in 1922 the reduction of its war indebtedness thereto, at a rate of not less than 2,000 billion francs a year.

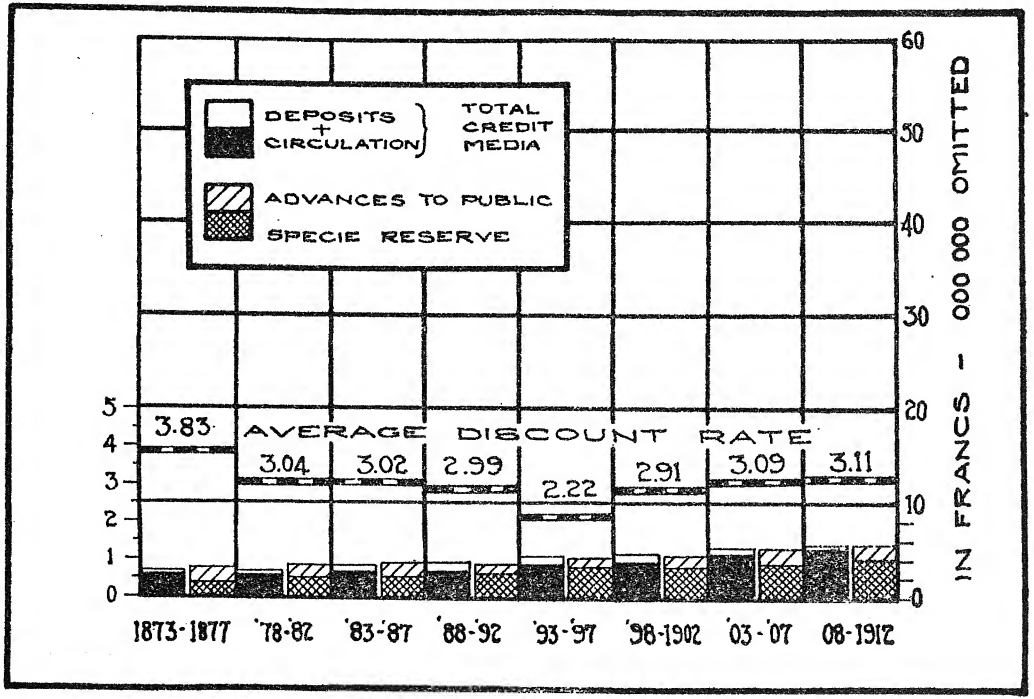
Chapter XXI

Functions and Operations of the Bank of France

PERHAPS the first and most important function of the Bank of France is that of making and regulating the fiduciary currency of the nation and the correlative function of maintaning the specie reserve. Next in importance, in normal times, may be placed its relation to the other banking institutions of the nation, its function of being a bank for banks. Then, in a very true sense, the Bank of France is a bank for all of the people, not merely for large corporations and for people of wealth but for every citizen who requires banking services. Lastly, the Bank of France has important relations with the national treasury. These in times of stress become paramount and dominant.

Bank of France Notes

Since 1848 the Bank of France has enjoyed the exclusive privilege of issuing the fiduciary currency of the nation. The total amount of notes which may be circulated by it at any one time is nominally regulated by law. Actually, in normal times, the circulation is regulated by the requirements of commerce. The amount of notes in circulation rises and falls with the needs of business as reflected by the discounts and loans of the bank. Thus the seasonal fluctuations in trade decide the note issues. Therefore, normally, every note has its counterpart, either in the metallic reserve or in bills and loans of short duration which are constantly maturing. The growth in volume and size of commercial transactions, even before the war led to a steady increase in the amount of notes in circulation, as shown by the following



BANK OF FRANCE

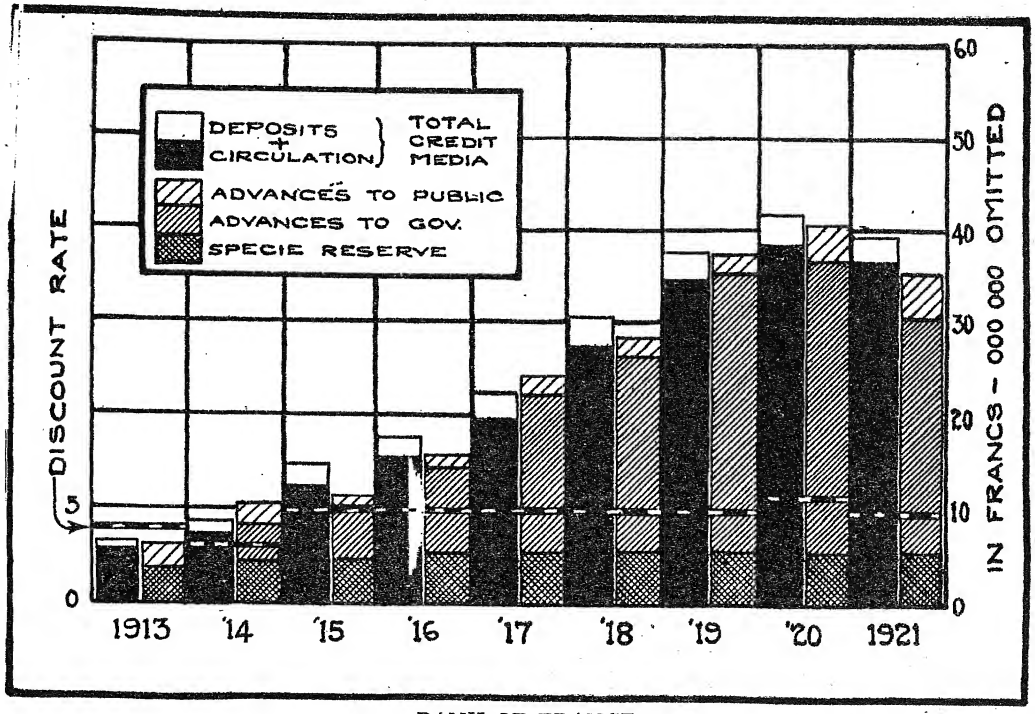
Credit Media vs. Credit Structure, Annual Averages—Five Year Periods, 1873 to 1912

table and chart covering the forty years of peace lying between 1873 and 1913.

BANK OF FRANCE
CREDIT MEDIA AND CREDIT STRUCTURE
1873–1912
(In *francs*—000,000 omitted)

Five-Year Averages	Specie Reserves		Credit Media			Credit Structure		
	Actual	% Credit Media	Circulation	All Deposits	Total	Discounts and Loans	% Credit Media	Discount Rate Average
1873-1877	1,520	*52.52*	2,580	314	2,894	1,513	*52.28*	*3.83*
1878-1882	2,010	*70.68*	2,430	414	2,844	1,244	*43.74*	*3.04*
1883-1887	2,200	*66.18*	2,840	484	3,324	1,696	*51.02*	*3.02*
1888-1892	2,520	*69.49*	2,970	656	3,626	942	*25.98*	*2.99*
1893-1897	3,150	*74.80*	3,550	661	4,211	945	*22.44*	*2.22*
1898-1902	3,320	*71.92*	3,970	646	4,616	1,184	*25.65*	*2.91*
1903-1907	3,770	*72.81*	4,490	688	5,178	1,319	*25.47*	*3.09*
1908-1912	4,160	*70.71*	5,140	743	5,883	1,713	*29.12*	*3.11*

In time of war all this is changed. The state which in time of peace is forbidden to borrow from the bank now becomes the chief borrower. The note issues instead of expanding and contracting with the needs of business expand rapidly as the state requires funds. The governor of the currency engine—the specie reserve and the loans and discounts—no longer functions. The only check against unlimited expansion is the exercise of the good judgment of the minister of finance in not forcing the bank to issue notes beyond an amount which will destroy their value in exchange for munitions and services required for the conduct of the war. The next table and chart show the facts year by year from 1913 to the end of 1921.



BANK OF FRANCE

Credit Media vs. Credit Structure, Annual Averages 1913 to 1921, inclusive

BANK OF FRANCE
CREDIT MEDIA AND CREDIT STRUCTURE
1913–1920

(In *francs*—000,000 omitted)

Annual Averages	Specie Reserves		Credit Media			Credit Structure				
						Discounts and Loans			Advances to State for War	
	Amt.	% Credit Media	Circulation	Deposits	Total	Amt.	% Credit Media	Discount Rate	Close of Year Amt.	% Credit Media
1913. . .	3,972	*61.16*	5,665	830	6,495	2,374	*36.53*	*4.00*	.....	.....
1914. . .	4,405	*49.48*	7,325	1,556	8,881	2,314	*26.05*	*4.22*	3,900	*43.91*
1915. . .	4,709	*31.77*	12,286	2,541	14,821	928	*6.45*	*5.00*	*a* 5,630	*37.98*
1916. . .	5,280	*29.83*	15,552	2,149	17,701	1,669	*8.87*	*5.00*	*a* 9,030	*51.58*
1917. . .	5,517	*24.53*	19,845	2,645	22,490	1,783	*7.87*	*5.00*	*a* 15,715	*69.93*
1918. . .	5,690	*18.49*	27,536	3,230	30,766	2,089	*6.77*	*5.00*	*a* 20,676	*67.20*
1919. . .	5,852	*15.46*	34,744	3,028	37,772	2,293	*6.07*	*5.00*	*a* 29,255	*77.45*
1920. . .	5,812	*13.93*	38,186	3,463	41,649	4,045	*9.71*	*5.73*	*a* 30,580	*73.42*
Actual Status										
1914 July 2	4,696	*63.10*	6,051	1,232	7,283	2,538	*34.44*	*3.50*	.....	.....
1921 Dec. 29	5,804	*14.80*	36,487	2,743	39,230	4,804	*12.35*	*5.50*	24,600	*62.48*

a Includes advances to the State under Law of August 6th and December 26, 1914, and Treasury Bonds for account of advances made to foreign governments.

It will be observed that from 1914-1921 advances to the state reached a maximum (in the latter part of 1920) of 26,800 million francs, since reacting to 24,900 million at the close of 1921. These advances involved a corresponding increase in circulation, which then stood at 36,417 million, about seven times the average status of 5,230 million for the six years prior to 1914. If we deduct the advances to the state we find that the amount of the note issues not offset by such advances, say 11,500 million francs, is almost exactly double the total note issue just prior to the declaration of war. Deposits, too, have slightly more than doubled. On the other hand, we find that commercial loans and discounts

have also doubled and, in our study of the credit structure in chapter v, we found that this was apparently true of the banking situation taken as a whole.

Although the note circulation has increased six fold since 1914 wholesale prices today are only about three times what they were in 1913. It is true that in the Spring of 1920 they were nearly six fold the 1913 average. There have evidently been other forces than the increased volume of currency at work affecting prices, otherwise the maximum reached in 1920 should have been retained until now instead of being nearly cut in two. Just what is the effective note circulation it is difficult to determine because of the propensity of the French people to hoard money. If they cannot obtain specie they will hoard bank-notes. The increased volume of business calls for a substantial increase in the volume of notes, especially in France where even today, after earnest efforts to popularize the use of cheques, transactions to such a large extent are settled with actual cash.

The Specie Reserve

There is no fixed specie reserve which the bank is legally required to hold against either notes or deposits. The amount of the reserve is left to the discretion of the management. As may be seen by reference to the foregoing charts, the policy of the bank always has been to maintain a large reserve. It will be noted that between 1877 and 1913 the reserve nearly equals the notes in circulation. Thus, up to the time of the war, Bank of France notes were practically specie notes. We use the term specie, rather than gold because the French money is theoretically bi-metallic. Therefore the bank reserves the right to redeem its notes in either gold or silver, and carries a substantial minimum

amount of its specie reserve in silver. However, the bank uses this right with discretion and only to the extent which appears necessary in order to prevent an unjustifiable weakening of the gold in its vaults. In no case has the bank ever charged any premium on French gold in redemption of notes.

As we have already pointed out in chapter v, all through the war the bank succeeded in maintaining and even increasing its specie reserves, but manifestly it would have been impossible to maintain the convertibility of its notes in the face of steadily increasing issues. Very wisely the specie holdings have been used to protect the entire banking structure and especially international credits.

Discounts and Loans

The Bank of France discounts for any corporation, firm or individual having an account opened on its books. Paper to be discountable must bear three signatures, two of which ordinarily must be those of citizens. Paper to be discountable must mature within three months. Bills may be payable in Paris or in any one of the 601 towns where the bank undertakes to collect bills.

The third signature may be replaced by a deposit of securities accepted as collateral for loans, or by warehouse receipts, or may be given once for all by a separate deed of guaranty.

The bank also makes loans upon collateral. The securities accepted are generally only such as are issued or guaranteed by the nation, the departments, the municipalities or French colonies, such as the bonds and stocks of French railroads, the bonds of the Crédit Foncier and bonds created by French cities or departments or the Governor General of Indo China, the Governor General of Algeria or Tunis, and loans con-

tracted by the colonies and countries under French protection which are regularly authorized and also upon the obligations issued by the Crédit National to facilitate the repair of the damage caused by the war. The amount of the loan to be made against these different classes of securities is determined by the general council of the bank.

The bank has a system of mixed accounts for which the securities deposited serve alternately, and according to the position of the account either to guarantee advances made, or discounts granted to the same customer.

A very important part of the bank's bills discounted comes from re-discounts for other banks, especially for the great credit establishments. It is for this reason that these great banks with their numerous branches and tremendous volume of business are able to transact business on so small cash reserves. In case of heavy drafts by their depositors, or unusual demands for accommodations from business houses, the banks can usually take a bundle of bills to the Bank of France and get credit for them on its books, or obtain a package of crisp new bank notes to place in their tills. It is thus that the bank, by giving or withholding credit, can regulate the credit situation.

The bank does not confine its business to rediscounts for other banks or to loans on collateral for them or to discounts or loans for the great financial or commercial houses. Anyone who has an account with it, no matter how small, down to the minimum of five francs, may discount paper at any one of its offices.

The average life of bills discounted is around 25 days. In 1921 there were 15,343,800 bills discounted in Paris, and at the branches and auxiliary bureaus. Of 4,646,000 bills discounted in Paris alone there were 32,604 for amounts

between 5 and 10 francs; 577,243 for amounts over 10 and up to 50 francs and 623,506 for amounts over 50 and up to 100 francs. Thus the little discounts for amounts of 100 francs or less comprised about 27 per cent. of the total number of bills discounted in Paris.

The Discount Rate

The rate of discount at the Bank of France has been remarkably uniform and usually lower than that of other central banks. As our charts show, from 1873 the rate steadily declined, averaging in the five-year period 1893-1897 only 2.22 per cent. As a matter of fact the average rate for each of the years 1896 and 1897 was only 2 per cent. After 1897 the rate gradually advanced, reaching 4 per cent. in 1913. The rate for a short period in 1914 was 6 per cent., but was soon reduced to 5 per cent. in 1915, where it stood unchanged until April 8, 1920, when it was advanced to 6 per cent. to be marked down again to 5½ per cent. on July 28, 1921, and to 5 per cent. in March, 1922. The loaning rate on securities is usually about ½ to 1 per cent. above the discount rate. The uniform and relatively low rate of discount in all parts of France has been a great boon to French business.

Other Services Rendered to Public

In addition to being a bank of issue, of deposit and of discount, the bank renders other valuable services to the public. It transfers money (*virements*) for its clients without charge, from one account to another, from an account in Paris to one at a branch, or from branch to branch. For persons not customers there is a moderate charge made. Such transfers between clients amounted in 1921 to 1,199 million

francs, while the number of such transfers was the almost unbelievable total of 35,992 million. These transfers are made by a simple notification to branches or the home office, or, if the person making the transfer so desires, he will be given a receipt in duplicate, one part to be retained by him (*Mandat de Virement*) and the other part (*Avis de Virement*) to be sent to the person to whom the money is transferred. These *virements* of the Bank of France are almost exclusively used by other banks in making transfers between their head offices and branches, as well as being extensively used by other clients of the bank.

Other methods of transferring money are cashier's cheques (*billets à ordre*), not very extensively used; and cheques, which are of two kinds, direct and indirect. The direct cheque is payable in the locality where the account is kept, the indirect cheque is payable elsewhere. There is no charge on the direct cheque. Upon the indirect cheque and the *billets à ordre* there was formerly a charge of 50 centimes per 1,000 francs, with a minimum of 50 centimes and 5 centimes per 100 francs additional, while the bank reserved the right to withhold remittance during 24 hours on cheques amounting to 500,000 francs or more. Special efforts were made during the war, and have been made since, to popularize the use of cheques, which prior to the war hardly entered into the ordinary business transactions, let alone transactions between individuals. To that end the bank issued an attractive booklet describing and illustrating the cheque and its use.

One form of cheque which the bank introduced from English practise might well be adopted also in the United States. This is what is known in English banking parlance as the "crossed cheque." A "crossed cheque" is payable only when presented through a bank. This is a great protection

in case of loss or theft. The *chèque circulaire* is a crossed cheque payable at any office of the bank, making such a cheque a very convenient form of remittance which can be made through the mails without risk of loss.

There is now no charge made by the bank for opening a deposit or draft account, for the books of blank cheques, for the *visa* by the bank of cheques which it is desired to have paid at a branch other than that at which the account is opened, nor for the delivery of the *chèques circulaires*.

The bank also issues letters of credit in the usual form, payable at any one of its offices.

The bank issues receipts payable on sight for funds temporarily deposited. The receipts do not bear interest. The bank collects for its clients bills maturing within five days, making a moderate charge for the service.

Another important service rendered by the Bank of France is that of safe-keeping of securities. This takes two forms, the renting of safe-deposit vaults and boxes, and the actual physical care of the securities. It also watches for drawn numbers of bond issues. The bank will insure holders against the risk of payment at par of bonds held by them. Customers' securities are kept in special vaults, surrounded with every conceivable safeguard against fire, mob violence or theft. The vaults are so constructed that in case of fire they could be filled and covered with sand. The special staff alone is permitted within the gratings. The numbers of shares and bonds are listed in triplicate, and signed by the depositor and the bank. One copy is held by the depositor, one by the bank in Paris and one by the Havre branch of the bank. At the close of 1920 there were 136,470 customers' securities accounts represented by 12,279,000 items. The nominal or market value is not given.

The bank receives for its clients orders for securities to be executed upon the bourse. These orders in 1921 totaled 129,445 and called for transactions upwards of 652 million francs. The bank also attended to the execution of orders for the sale of securities in foreign markets, London, New York, Bâle, Berne, Geneva, and other places including Buenos-Ayres.

Relation of the Bank with the State

As we have already seen, the bank from its first inception has been a semi-state institution. Its affairs have always been under state supervision, its chief officials are appointed by the head of the state and in times of stress it has always been the chief financial prop of the state. These facts being so, it would naturally be expected, as is the case with the Bank of England and the Bank of Belgium, that the Bank of France would handle for the state the collection of its revenues, the paying out of its funds and the management of the debt.

While the bank performs some of these functions, its relations are more nearly such as any bank renders to important clients.

Depository of State Funds: It is the only depository of government funds, upon which it is not required to pay interest.

It acts as the cashier of the treasury, whose accountants can all pay in or draw upon the account of the treasury in all of the offices of the bank, the latter making the necessary transfers in order to centralize these operations in Paris for the account of the treasury.

Miscellaneous Services: Since 1897 the bank has transferred for the treasury from one part of the country to another the different kinds of coin required for circulation,

has furnished the necessary service for the issue of treasury bills and has paid the coupons of public securities at the same time that they are paid at the government offices. All of these services are rendered without remuneration.

Loans to the State: At various times in the past, in consideration of its privileges, the bank has made loans to the treasury which are practically gifts because they bear no interest and are repayable only in case of non-renewal of the bank's privileges. These loans, which aggregate 200 million francs, were made as follows: 60 million, June 9, 1857; 80 million, March 29, 1878; 40 million, October 31, 1896, and 20 million, November 11, 1911.

In 1857 the bank bought from the state 100 million 3 per cent. rentes. This investment in the state funds is practically of a permanent character also.

In addition to these permanent loans the bank, as we have already seen, at times of special crisis has made special loans. Loans of this character made since 1914 amounted at the end of December, 1921, to 24,900 million francs and discounts of treasury bills for account of foreign governments were 4,142 million, a total of 29,042 million. At the close of 1920 it was agreed that the loans, which at one time during 1920 stood as high as 26,600 million, should be reduced at the rate of 2,000 million francs a year beginning with 1922.

The advances which the bank made to the state during the war were at the rate of 1 per cent., but in September, 1914 it was stipulated that one year after the cessation of hostilities this rate should be raised to 3 per cent. This additional 2 per cent. was not to be counted in the profits of the bank but was meant to form a special account of amortization destined to help in reducing the state's debt to the bank.

According to the terms of later agreements this interest of 3 per cent. will be credited to the amortization account up to 2½ per cent. for the first twenty-one billion and 2⅝ per cent. for the amount included between the twenty-first and twenty-fourth billion and 3 per cent. (that is to say the total interest) for the 3 billion from the 24th to the 27th.

Taxes: The bank is subjected to all general taxes imposed upon private companies. It also pays certain special taxes. The taxes paid in 1920 and in 1921 were as follows:

TAXES PAID BY BANK OF FRANCE
IN 1920 AND IN 1921
(In *francs*—00,000 omitted)

		1920	1921
1.	Direct contributions	7,8	8,4
2.	Stamp tax on circulation	14,9	9,0
3.	Stamp tax on shares of stock	0,1	0,1
4.	Tax on dividends	5,2	5,5
5.	Tax on dividends in excess of 240 francs per share	2,7	5,5
6.	Royalty to the state, stipulated by Article 5 of the law of November 17, 1897, and calculated by multiplying the average amount of the productive circulation by one-eighth of the average rate of discount	57,0	87,2
7.	Tax upon the revenues of the debts	0,1	0,3
8.	Share of the state of earnings from the rate of discount above 5 per cent.	15,9	20,0
9.	Sinking fund (Law of December 20, 1918): Special contribution upon the proceeds of the advances to the state and discounts of treasury bonds for advances of the state to foreign governments	328,2	805,9
10.	Interest on the above	3,5	2,7
	Total	435,4	944,6

Both in 1920 and 1921 the bank returned to the government nearly all of its earnings from government business.

We have already called attention to the large amount of business transacted by the bank for the government for which it receives no compensation. It will be seen that the Bank of France, in return for its valuable franchise, gives to the state in free services and taxes a liberal proportion of its earnings, reserving for its own stockholders practically only its earnings from commercial sources, from which must be deducted the expenses of conducting the business before any dividend distribution can be made. These facts are brought out in the statement of the income account which follows.

Income Account

The Bank of France publishes annually statements of income and disbursements. Following is a condensed comparative statement of its operations from 1910 to 1921, inclusive. An inspection of this statement develops the

EARNINGS OF THE BANK OF FRANCE
1910–1921
(In *francs*—000 omitted)

Year	Commercial Earnings	Earnings from Government Business	Grand Total
1910	67,210	.....	67,210
1911	80,676	.....	80,676
1912	94,828	.....	94,828
1913	123,507	.....	123,507
1914	124,337	8,602	132,939
1915	137,132	56,900	194,032
1916	220,492	71,530	292,022
1917	152,816	239,692	392,508
1918	171,851	316,304	488,155
1919	244,718	397,164	641,882
1920	360,076	474,139	834,215
1921	456,519	953,209	1,409,728

DISPOSITION OF EARNINGS OF THE BANK OF FRANCE
1910–1921
(In *francs*—000 omitted)

Year	Taxes	Expenses and Depreciation	Real Estate Acquired	Reserve Accounts	Dividends Net	Grand Total
1910	9,298	22,575	.....	8,787	25,550	67,210
1911	10,937	25,500	.....	18,689	25,550	80,676
1912	12,733	26,895	.....	26,999	29,201	94,828
1913	18,127	30,866	16,000	22,014	36,500	123,507
1914	20,581	47,037	.....	30,646	34,675	132,939
1915	23,010	91,570	.....	43,952	36,500	194,032
1916	39,752	144,224	12,000	52,146	43,800	292,022
1917	163,329	67,464	.....	117,915	43,800	392,508
1918	290,553	88,515	25,000	40,287	43,800	488,155
1919	321,938	145,149	82,706	48,289	43,800	641,882
1920	435,410	210,786	57,209	84,273	46,537	834,215
1921	944,631	217,304	14,374	184,144	49,275	1,409,728

fact that the war conditions greatly increased the earnings, both gross and net. It will be found advantageous to compare this account with the balance sheet. One helps to elucidate the other.

Balance Sheet

In concluding this account of the business and functions of the Bank of France we print a copy of its balance sheet for the close of 1921, as presented to the general assembly of stockholders in January, 1922. The statement is printed exactly as published, except that the terms have been done into English.

It is believed that the descriptive notes following the table, taken in connection with the explanations already given in regard to the business methods of the bank, will make the statement easily understandable.

We are sure that our readers will be impressed, as we have been, with the clearness of the accounting methods of the

bank and also with the complete data put before clients and public, week by week and at the end of the year. The numbers at the left of the table refer to the explanatory notes following.

BALANCE SHEET OF THE BANK OF FRANCE
AND ITS BRANCHES
December 31, 1921
(In *francs*—00,000 omitted)

	ASSETS		
(1)	Cash and bullion at Paris, in the Branches and abroad	Gold 3,575,8	5,804,0
		Gold held abroad . 1,948,4	
		5,524,2	
		Silver 279,8	
	Balance abroad		607,7
	Bills past due		0,6
	Discounted Bills, Paris	1,272,5	2,283,5
	Discounted Bills, Branches	1,011,0	
(2)	Bills prorogued, Paris	17,8	57,8
	Bills prorogued, Branches	40,0	
(3)	Loans upon bullion and coin, Paris	12,9	12,9
	Loans upon bullion and coin, Branches . .	.....	
	Loans upon securities, Paris.	411,1	2,275,7
	Loans upon securities, Branches	1,864,6	
(4)	Loans to the State (permanent)		200,0
(5)	Loans to the State (account Great War)		24,900,0
(6)	French treasury bills discounted for loans of the State to foreign governments		4,142,0
(7)	Rentes for the surplus reserve		13,0
(7)	Rentes for the surplus reserve, free		101,8
(7)	Rentes for the surplus reserve, permanent		100,0
	Building and fixtures of the bank and buildings of the branches		54,2
	Employment of the special reserve (see per contra) .		8,4
(8)	Sundry		1,914,3
	Total		42,475,9

BALANCE SHEET OF THE BANK OF FRANCE AND ITS BRANCHES

December 31, 1921

(In *francs*—00,000 omitted)

Liabilities

(9)	Capital of the Bank		182,5
(10)	Profits added to capital (surplus)		38,1
(11)	Reserves "mobilieres"		22,1
(12)	Real estate reserves		4,0
(13)	Special reserve		8,4
(14)	Sinking Fund:		
	Guaranteed amortisement		556,9
	Excess profits applied to the amortisement of the advances to the State		1,257,9
(14)	Interest added to sinking fund		8,8
(15)	Bank notes in circulation		36,417,4
(16)	Interest collected on securities deposited or transferred		65,0
(17)	Cashiers' cheques and receipts payable at Paris and branches		1,0
	Current account of treasury		5,1
	Current accounts and deposit accounts, Paris	1,738,7	2,701,3
	Current accounts and deposit accounts, Branches	962,6	
	Dividends payable		3,8
	Unearned discount		13,1
	Profits and Losses: Transfers to the reserves and to the pension funds and for extra remuneration of employees	52,9	89,1
	Profits and Losses: Dividend	27,4	
	Profits and Losses: Transfer to the State of a sum equal to the portion of the annual dividend in excess of 240 francs net	5,5	
	Profits and Losses: Carried to next account	3,3	
(8)	Sundry		1,061,5
	Total		42,475,9

DESCRIPTIVE NOTES

(1) "*Gold Held Abroad*" represents gold on deposit in England, Spain or elsewhere as collateral for loans from those governments to the government of France. We naturally find no item on the liability side of the balance sheet to offset this item on the asset side, this gold being regarded as belonging to the Bank of France, but loaned to the government of France, and against which the government has issued no treasury bills but only a receipt. Likewise neither the Bank of England nor the Bank of Spain treat these gold items as an asset of theirs.

(2) "*Bills Prorogued*" represent paper that has matured, the payment of which has been deferred on account of the war (a moratorium having been declared in 1914) and which is now gradually being paid up. This item will eventually disappear entirely from the statement. See page 43.

(3) "*Loans on Bullion and Specie*": It is a practice in France for individuals and banks to deposit precious metals with the Bank of France as collateral for loans.

(4) "*Loans to the State*" (*Permanent*): See "Relations of the Bank to the State," page 265.

(5) "*Loans to the State*" (*Account Great War*): See "Relations of the Bank to the State," page 265.

(6) See pages 15, 250.

(7) The bank is required by law to keep invested in French rentes more than one-half of its capital and of its reserve funds (*i.e.*, its surplus).

(8) "*Sundry*": It is the custom for the Bank of France to make out its balance sheet on Thursday of each week, while the branches make out their balances on Saturday of each week. There results, therefore, a large number of items which are in the process of readjustment. These are lumped into the item "Sundry." In like manner, each of the branches has an item which it calls "Sundry," and naturally the sum of the sundry items of the branches helps to swell the same item in the Bank of France statement.

(9) *Capital:* Shares 1,000 francs each; original number 30,000; raised to 45,000 in 1803-1804; raised to 90,000 in 1807; reduced by purchase of 15,000 shares to 75,000; increased by sale of 6,000 shares to Napoleon to 81,000; apparently the remaining treasury shares were also resold prior to 1814; reduced thereafter by successive purchases to 67,900 in 1817. The reduction to the latter amount was legalized in 1823. Increased in 1848 by consolidation with departmental banks to 91,250 shares. Amount of stock doubled in 1857 to 182,500 shares. Original shares issued at par. Subsequent issues made as follows: 1803-1804 at 1,068 francs to 1,089.77 francs per share; in 1807 at 1,200 francs; in 1857 at 1,100 francs.

Transfers: The shares of the bank are all issued to the order of the owner. They are transferable on the books of the bank in Paris.

Signatures of owners or of their attorneys in fact must be witnessed by a member of the bourse in Paris or in any other city where there is a stock exchange. Elsewhere they must be witnessed by a notary. Shares may be "immobilisees," that is put in the category of real estate by declaration of the owner. A shareholder may part with the usufruct of the shares and dispose separately of his property rights. Dividends are payable at the bank in Paris, also at any branch, on July 1 and January 1. The shares sell ex-dividend the day following its declaration by the bank, usually from the 22nd to 27th of June and December, respectively.

(10) *Profits Added to Capital (Surplus):* Surplus or profits in addition to the capital accruing from raising the rate of discount above a certain fixed rate and which, according to the terms of the law, cannot be distributed.

(11) *Reserves "mobilieres":* The surplus coming from different sources and notably from profits accumulated before 1834; from the surplus of departmental banks absorbed in 1848; from the premium on the new shares issued at the time of the doubling of the capital in 1857; amounting in all to 22,105,750 francs, viz.:

(a) 10,000,000 francs by virtue of the law of the 17th of May, 1834;

(b) 2,980,750 francs coming from the departmental banks which were united to the Bank of France (decree of the 27th of April, 1848, art. 5);

(c) 9,125,000 francs (law of the 9th of June, 1857, art. 4).

(12) *Real Estate Reserve:* Real estate surplus, representing in the books the value of the central bank building; 4,000,000 francs (law of the 17th of May, 1834).

(13) *Special Reserve:* The special surplus constituted in order to insure the relative stability of dividends.

(14) *Sinking Fund (Law of December 20, 1918):* This sinking fund was created as a special reserve against the loans made to the state during the great war. It is built up by transferring to the account 50 per cent. of the interest collected upon the loans to the state, also 85 per cent. of the proceeds of the discount collected on the treasury bills purchased from the state to provide for advances to foreign governments. For the period elapsed between August 1, 1914 and the end of 1917 there was paid in a lump sum of 200,000,000 francs. These payments are made by the bank in lieu of the war profits tax. See also last paragraph, page 265.

(15) *Bank Notes in Circulation:* At the present time the note circulation is *"a cours force,"* i.e., forced, irredeemable in specie. The great increase in the note circulation since 1914 has been made necessary by the loans to the state and discounts of treasury bills for loans to foreign nations. See per contra items 5 and 6. For other data consult the Index. Previous periods of suspension of specie payments were

from March 15, 1848 to August 6, 1850, due to the revolution of that period and from August 12, 1870 to January 1, 1878, due to the war with Prussia. Since 1870 Bank of France notes have been a legal tender for debts, both public and private.

(16) *"Interest on Securities Transferred or Deposited":* The Bank of France holds securities of customers on which it collects coupons and likewise acts as transfer agent for some issues, including government bonds. As the bank collects the interest due on such bonds, it properly treats this amount as a liability pending its distribution to customers.

(17) *"Cashiers' Cheques," Etc.:* These are letters of credit and bank drafts issued by the branches to customers and payable in Paris.

Chapter XXII

Ownership, Government and Home of the Bank of France

THE Bank of France during all the period of its existence has maintained complete independence so far as political bias or control is concerned. No charge has ever been made that the bank favored or aided any political party.

Ownership

The bank is entirely owned by its stockholders. For many years none of its stock has been held by the state, that which was originally purchased having been disposed of to the public. The stock is 182,500,000 francs divided on December 24, 1921, among 33,781 stockholders. The par value of the shares is 1,000 francs, equal at par of exchange to $200. Its market value at the close of 1921 was 5,530 francs—say, $1,106. There were then 11,952 stockholders holding only one share of stock each. There were 7,398 persons who had only two shares and 7,509 who held between three and five shares. Thus 10.6 per cent. of the stock, was held by those who owned two shares or less and over 20 per cent. by those who owned five shares or less. A very large percentage of the stockholders are women. Only the 200 largest stockholders have a voice in the management of the bank.

State Control

Notwithstanding the fact of exclusive private ownership, the state in accordance with the Law of April 22, 1806, which it will be remembered was passed at the direction of

Napoleon, exercises a very close supervision over the affairs of the bank. This supervision is secured through the fact that the governor and the two sub-governors are appointed by the President of the Republic upon the nomination of the minister of finance, and are understood to be removable at his pleasure, but this power, as a matter of fact, has never been exercised. In case of disagreements arising in regard to the internal administration of the bank or in regard to the application of the laws and statutes governing them, such matters are regulated by the council of state which acts when required to do so by the minister of finance.

The Governor and Sub-Governors

The governor of the Bank of France, appointed as stated above, must own at least 100 shares of the stock of the bank and each of the two sub-governors must own at least 50 shares. These shares of stock must be held by these officials during their entire term of office. The terms of service of the governor and sub-governors are not limited to any fixed period. M. Georges Pallain, who so ably guided the bank through the trying times of the great war, became governor in 1898 and only surrendered his office to his successor, M. Georges Robineau, at the close of 1920.

According to the testimony of M. Rouland, a former governor, given before an official body in 1865, the governing body of the bank consists of two perfectly distinct elements; one being the portion chosen by the state and the other that chosen by the shareholders. The persons chosen by the state, namely the governor and two sub-governors, he stated, were bound to see that the business of the bank was carried on for the public advantage. It is their duty, he said, to see that the statutes of the bank are not overstepped and

that the interests of trade and commerce are attended to. It is from them that the proposals to raise or lower the rate of discount appear almost invariably to proceed. He claimed that during 62 years it did not happen twice that the council had had to propose that the rate of discount should be raised or lowered, the suggestion had come from the governor. He said, "nothing of any description which concerns the great interests of the public, nothing which concerns the larger duty which the bank has to perform toward commerce and industry, nothing of all that class of business belongs to or is left to the discretion of the 'interested party.'" By the "interested party," M. Rouland is understood to have meant the governing body or council which directly represents the shareholders. Although this testimony was given many years ago, it is understood still to reflect the facts in regard to the importance of the governor and sub-governors in the management of the bank and their relations to the council, the position and functions of which are described in a subsequent paragraph.

The governor presides at meetings of the general assembly of shareholders, also at meetings of the general council and of all committees. He is charged with the internal administration of the bank and with the execution of the decisions of the council, also of the laws and decrees under which the bank operates. It is understood that a great part of the detail of the management of the bank rests upon the two sub-governors. The salary of the governor is 60,000 francs and of the sub-governors 30,000 francs each.

The General Assembly

The General Assembly of the bank is composed of 200 of the largest stockholders who must also be French citizens.

They must be present in person at meetings and vote personally. They cannot be represented by proxies. They have only one vote each, no matter how many shares they may hold. This assembly elects the regents and censors and is authorized to criticize the annual balance sheet of transactions presented by the council.

Besides the annual meeting which takes place in January, the shareholders may be called to meet in extraordinary session if, through resignation or death, the number of regents is reduced to 12 or the number of censors to one, or if it is so ordered by the censors, upon recommendation of the general council.

General Council

The General Council is composed of the governor, the two sub-governors, 15 regents and 3 censors. The regents and censors are elected at the annual meeting of the General Assembly. Three regents and one censor are elected each year.

Regents: Five regents out of the fifteen must be chosen from among manufacturers or merchants who are shareholders of the bank and three from among the treasurers-general (these are officials of the treasury department). Regents must own at least 30 shares of stock during the period of their service. They are not paid, but a "presence slip" is given them, the value of this slip being determined at the general meeting. The duties of the regents do not differ much from those of any other director of an ordinary corporation. They meet at least once a week, but cannot make any decision unless at least ten of their number are present and one of the censors. They supervise all departments of the bank, fix the rates of discount and of interest, determine,

subject to the approval of the censors, upon the issuance of bank notes, and make an annual report to the assembly of stockholders.

Censors: The special mission of the censors is to supervise all the bank's transactions and to this end they may ask to see all accounts, registers and securities-portfolios whenever they judge fit to do so. At least one censor attends all meetings of the regents and any action in regard to the issuance of bank notes must meet with their unanimous approval. They do not have the right of voting, but they may discuss the affairs of the bank and may propose such steps as seem to them useful or appear to be in the interest of the bank. In addition to attending the meetings of the council, they also attend the meetings of the committees of bank notes, bookkeeping and securities-portfolio.

Committees

The General Council is divided into five departments or committees as follows: Committee of Discount, Committee of Bank Notes, Committee of Funds, Committee of Bookkeeping and Securities-Portfolio, Committee of Relations with Public Treasury and the Treasurers-General.

Discount Board and Committee of Discount: The discount board was established in 1803. It is composed of twelve members appointed by the censors from a list proposed by the general council selected from among the stockholders doing business in Paris who own at least ten shares. Its members are renewed each three months and may be reelected. They examine and pass upon bills presented for discount and also assist the governor and the general council, in the classification of credits. This classification is revised each year.

The committee of discount which is composed of three regents and the members of the discount board decides as to what bills are acceptable for discount.

Committee of Bank Notes: This committee is renewed by one-third each month and outgoing members cannot be re-elected before a period of six months has elapsed. This committee is in charge of transactions relating to the making up, signing and registering of bank notes and turning them into the general funds. It supervises the verification of cancelled notes or those taken out of circulation and also sees that all formalities in regard to their cancellation are strictly carried out. Among such formalities is the very important one of reducing cancelled notes to a paste. Formerly cancelled bank notes were burned within the premises of the bank, but at present they are put into iron cylinders and reduced to a paste which is sold to French industries and used in the making of cardboard. All these different transactions are noted on a special register in the presence of the general secretary, the comptroller general and the chief accountant of bank notes, and a report is made to the general council. It is also the duty of the committee to examine all claims in regard to bank notes deteriorated by use or accident. As stated above, the censors must unanimously approve the acts of this committee.

Committee of Bookkeeping and Securities-Portfolio: This committee is organized in the same manner as that on bank notes. Its duty is to supervise the accounting of the bank and examine securities held in the portfolio. It controls the annual classification of credits which the discount department notes carefully each day. It also keeps a register of bankruptcies, on which register are entered each day the date and names and other information in regard to each bankruptcy.

Committee of Funds: This committee is renewed every three months and is charged with the verification of the cash and securities at least once a week.

Committee of Relations with Public Treasury and the Treasurers-General: This committee is renewed by one-fifth every six months. Outgoing members cannot be re-elected before a period of six months has elapsed. Its duty consists in the supervision of the relations of the Bank of France with the public treasury and treasurers-general.

Branches

On December 31, 1921, the Bank of France had 604 "bankable places." These included the central office and 16 other offices in Paris and its suburbs; and in the provinces 147 full branches, 71 auxiliary bureaus and 369 agencies. The annual report for 1921 states that the business of the branches and agencies amounted in 1921 to 43,927 million francs, 34,641 million in the provinces and 9,286 million in Paris and its suburbs. As the business at the main office in Paris amounted to 20,794 million it will be seen that the provincial branches handled a little more than 52 per cent. of the total business of the bank for the year. The bank is constantly opening new branches or agencies as the general business conditions make it desirable to do so.

Management: The business of the branches is conducted under the supervision of a manager appointed by the President of the Republic upon the nomination of the minister of finance, upon recommendation to him of three candidates by the governor of the bank. The manager is assisted by a local board of directors selected from among the best qualified commercial, industrial and agricultural representatives in the region where the bank is located. The policy of the bank is

to leave as much initiative as possible in the conduct of the current business of the branches to their managers. The managers are assisted by the members of their local board in whom they find authorized and enlightened interpreters of the commercial needs of the region where the bank its located. Their management is subject to control and regular inspection from the central office in Paris. Matters of exceptional importance must be referred to the central bank under whose supreme authority the managers of the branches always remain. The managers receive fixed salaries and certain perquisites, such as living apartments, light and heat. The members of the local board of administrators receive no regular pay except for the "presence slips" similar to those received by the members of the general council of the parent bank.

Each branch upon its establishment is allowed a capital fixed by the general council.

Auxiliary Offices

The management of the auxiliary offices is the same as that of the branches except that the managers have no local board to assist them. All discounts are referred to the manager and the local board of the branch to which the auxiliary is related.

Employees

Pensions: Since the origin of the bank a system of pensions has been in force which is particularly advantageous to the employees. After 30 years of service an amount is guaranteed to each person having a right thereto equivalent to at least one-half of the annual salary. The bank also adds benevolent allowances which it gives out of its general re-

sources and which are fixed according to the services rendered and to the personal condition of the employee.

Investments of Pension Fund: The pension fund on December 31, 1921, held 225 shares of the Bank of France, upwards of four and a half million francs in government bonds and over eight million francs in other interest bearing securities. The pension fund for women employees at the same date held interest bearing securities having a par value of 1,429,000 francs.

Profit-Sharing: The bank allows all of its staff to participate in the results of particularly productive years by a general and exceptional allowance.

Number of Employees: At the close of the year 1921 there were 1,790 regular employees connected with the central bank and 3,235 connected with the branches and auxiliaries, a total of 5,025. In addition there were 7,763 persons employed by the day.

The Home of the Bank in Paris

The central office of the Bank of France is located in Paris at No. 1 rue de la Vrillière. The main entrance is through a court, the gates of which open toward a little street leading out to the Place des Victoires. There are three other large courts. It faces on four streets. This building was originally constructed in 1620 for Raymond Phélippeaux, duc de la Vrillière, Secretary of State, by Francois Mansard. It was bought from the family of La Vrillière in 1705 by M. Rouillé, afterwards General Director of the Finances, from whom it was purchased in 1713 by the Comte de Toulouse, son of Louis XIV and Mme. de Montespan. By inheritance it became the property of the Duc de Penthièvre who was one of those to lose his life during the

revolution when the property appears to have been confiscated by the state. The national printing office was established there, where it remained until 1808. In 1803 the Bank of France purchased the building from the government and in 1811 entered upon its occupation. Since then the building has several times been enlarged, the last improvements having been of a very recent date. The exterior of the bank building is quite severe, but it is relieved by some fine statuary. The interior arrangements of the bank provide for handsome waiting rooms for the public and offices for the executive staff, with very fine and complete arrangements for the convenient conduct of the business by the large force of employees.

The incomparable Galerie Dorée of Mansard is still preserved. In this salon of the old palace, with its wonderful interior in Louis XV style and its famous paintings, have always been held the meetings of the general council and the annual assembly of the shareholders. The governor's offices, just across the corridor, are large but severe in style.

To give some idea of the size of the bank building it may be of interest to note that the "galerie des recettes," which handles collections of all sorts throughout Paris, has 275 separate cages and cashiers' windows, each cage containing one teller and two assistants.

In the cellars of the bank are located the money and securities vaults where there are stored not only the gold and silver, the stocks, bonds and other securities of the bank, but also the securities, jewels and other valuables of its many clients.

The bank is carefully guarded night and day not only by its own special officers but also by soldiers detailed for that duty.

The bank owns much property contiguous to its main

office which in time will be improved with additional buildings as its business may require.

In addition to the group of buildings in which its head office is located, the bank owns dignified buildings in Paris and its suburbs, and in the provinces, in which the branch offices are housed.

Chapter XXIII

Unofficial Corporate and Private Banks

IMPOVERISHED by the revolution and the Napoleonic wars, France was obliged to float abroad the loans destined to indemnify the victorious allies of a century ago. The six million 5 per cent. loan of 1816 was placed gradually at Amsterdam, at an average rate of 57 francs. Hope, of Antwerp, and Baring, of London, financed the government of the restoration, accepting the issues of securities at prices ranging from 52.50 in 1816 to 85.55 in 1821. In this latter year Parisian bankers, Hottinguer, Bagenault and Delessert, for the first time participated in a syndicate formed by Hope for the placing of a loan to the French government. In 1822 the first French loan placed within the country was taken by the Rothschilds, who in that year established their Paris branch, and, until the reign of Napoleon III, continued to be the successful bidders for the handling of French national loans.

Meanwhile the economic resurrection of France continued apace until the great crisis in 1848, when, within one year, the specie reserves of the Bank of France fell from 244 to 71 millions. In order to relieve the money stringency, the government, by decree of March 7, 1848, made possible the creation of bureaux d'escompte, or discount banks, the capital of which was provided one-third in cash by the founders, one-third by city securities, and one-third by treasury bonds. The profits were distributed to the stockholders only, the municipal and national contributions serving merely as guarantee. The business of these institutions was limited to the discounting of commercial paper. Under this

law was founded the Comptoir d'Escompte, which in 1889 was reorganized as the Comptoir National d'Escompte.

Banking 1852-1865—The Crédit Mobilier

In 1852 the brothers Isaac and Emile Péreire, the latter of whom had been a founder of the Comptoir, launched the Crédit Mobilier*, an institution which failed in 1867, was reorganized in 1871, continuing a precarious existence until 1902, when it was finally liquidated. With an original capital of 60 million in fully paid up shares of 500 francs, doubled in 1866 and modified at various times in its subsequent career, the Crédit Mobilier, during the first ten years of its existence, "dominated continental finance, exercised the greatest influence on modern banks in general and contributed to the establishment, throughout Central and Western Europe, of analogous institutions, among others the Allgemeine Deutsche Creditanstalt (General German Credit Bank) of Leipzig, the Bank für Handel und Industrie (Commerce and Industry) at Darmstadt, and the Öesterreich Creditanstalt (Austrian Credit Bank) of Vienna."

The founders of the Crédit Mobilier never secured permission to issue bank notes bearing interest, but they did carry out the rest of their project, which was, in the main, to promote means of transportation and the development of industry by floating railway and industrial stocks, not only in France, but in other countries, notably Austria. The regular banking business occupied a secondary position in the affairs of the Crédit Mobilier.

This institution was so active and prosperous in its early

*This bank must not be confused with an existing bank of similar name and excellent reputation.

years that, coupled with the initial opposition of the Rothschilds, there was soon formed a rival syndicate of bankers who founded the Societe Générale, which has survived as one of the six great non-official credit institutions of France.

The failure of the Crédit Mobilier was due not only to the efforts of its rivals, but principally to its excessive investments in the promotion of industrial enterprises. In 1862 it had 148 million tied up in such investments, against a capital stock of 60 million. When trouble came, the Bank of France alone came to the aid of the Crédit Mobilier, but exacted the resignation of the Péreire brothers.

The Crédit Mobilier played a role of great importance in the history of modern banking: first among stock banks, it engaged in the commerce of securities together with regular banking business. It may be said that, until the foundation of the Crédit Mobilier, the great bankers such as Hope, Baring and Rothschild, possessed a monopoly of the flotation of new securities. Their large fortunes originated in their operations of loans to states. These operations consisted simply of advances in specie: there was no question of issuing obligations and afterward placing them on the market. On the contrary, trading in securities, in the widest sense of the term, was the *raison d'etre* of the Crédit Mobilier. The capital necessary for its operations had been too large at the very foundation of the institution, so in order to utilize this capital, the bank had to engage in personal speculation on the bourse: it was impossible at the same time to form a clientele and to issue certificates for its own needs. The ultimate cause of its collapse, no doubt, lay in the inadequacy of the means with which it had undertaken the financing of operations which for lack of resources it later had to abandon.

In little more than a quarter of a century from the period when French government loans could not be floated in France, thanks to the industrial development of the country and the thrift of its people, Paris had become the world's financial market, especially for the issue of foreign state securities. Neymarck estimates that from 1852 to 1865, 20 billion of securities were issued in Paris, more than 8 billion of this amount having been issued between 1861 and 1865. About 5 billion were placed in railroads, and a like amount in stock companies of one kind or another. Four thousand and five hundred million were absorbed by foreign loans, Rothschild alone having handled the Italian loans of 1861, 1863 and 1865, totalling 1,839 million.

Banking 1870-1882

In a few years after the Franco-Prussian war and the payment of the indemnity, the French had again become so prosperous that, from May to September, 1879, the specie reserves of the Bank of France exceeded the amount of the notes in circulation. The rate of discount at one time was only 2%. The period from 1878 to 1882 was marked by wild speculation, the most conspicuous example being that of the Société de l'Union Générale, founded in 1878, on lines similar to the Crédit Mobilier, with a capital of 28 million at the start, 50 million in 1879 and 100 million in 1880, 25% paid up. In 1881, the president asserted that, in the three years of the company's existence, it had earned 36 million on a total paid up capital of 25 million. On November 6, 1881, this bank held on deposit 132 million, only 35 million of which was payable at sight, the balance in three to four years. Three months later the Société de l'Union

Générale, the shares of which, at 500 francs, had been quoted and sold at more than 5,000 francs, suspended payment and was declared bankrupt. This failure affected the bourse to such an extent that the estimated loss on securities, even of the best, within a short time reached 4 billion francs. Suez Canal shares fell in one month from 3,500 to 2,000 francs, and the stock of the Öesterreich Laenderbank from 1,175 to 500. By 1886, all the banks founded between 1878 and 1882 had disappeared.

"It is well," says Dr. Kaufmann from whose history of banking in France many of these facts have been taken, "to bring out clearly the fact that the excesses of this period cannot be charged exclusively to the Union Générale, just as it is impossible to place all the blame for the crises of the "Fifties" on the Crédit Mobilier. The fault belongs to the period itself, which was characterized by a too great optimism, the consequence of which was a fever of speculation such as that which took hold of Austria and Germany five years before. The Union Générale, besides, had the superiority over the other banks of the time in that it had founded on a solid basis a number of enterprises which exist to this day. * * * What led to its ruin was its senseless speculation in its own stock, in order to raise its value.

"The failure of the Union Générale exercised an essential influence on the development of French banking. It was because of this that the directors of the Crédit Lyonnais transformed the latter to a simple deposit bank, which it remains today. The other great deposit banks had to follow its example, in order not to be reduced to a secondary position. The present organization of credit and banking in France is a consequence of this 'turning around' in banking policy."

Banking Methods of Today

In other words, French banks, within the last twenty-five or thirty years, have largely, if not entirely, given up speculating on the bourse, confining their operations to the ordinary requirements of commerce. In general, banking methods and practice in France occupy an intermediary position between the specialization characteristic of English banks and the rather broader activities of German banks. There is, however, the distinction in France that the issuing of notes is a legal monopoly of the Bank of France; the trading in mortgages and other real estate and agricultural loans is a monopoly in fact, though since 1877 it has ceased to be so in law, of the Crédit Foncier; while to-day, as explained in a later paragraph, quite a sharp line is drawn between what are known as financing banks and the deposit and credit banks.

Organization

There is no special banking law in France. The joint-stock banks are incorporated under the general laws which regulate the organization and operations of all joint stock companies. Every corporation must have at least seven shareholders. There is no minimum capital required, but the entire capital must be fully subscribed and at least one-quarter of the authorized capital must be actually paid in. Stockholders' liability is limited to the par value of the shares subscribed for. Charters are perpetual, but duration of the company is determined by a vote of the shareholders. All incorporated companies are required to publish annually a report of their operations and condition. There is no supervision of banks by the public authorities and no examination of the accounts or consolidation of the

statements rendered annually. It follows that it is not possible to obtain data in regard to the banking system as a whole, although quite complete figures are available for many of the individual institutions, especially for the great credit companies.

The commercial banks may be roughly classified into three groups. These are the credit companies, the business banks and the international banks. Then there are a considerable number of private or unincorporated banking-houses.

The Credit Companies

These correspond in their functions and operations to the national and state banks of the United States and to the joint-stock banks in England. The business which these banks transact is concisely summarized in the following extract from a circular issued by a leading Parisian bank:

"Deposit accounts opened payable on demand or at fixed dates—current accounts. Certificates of deposit issued. Bills taken for discount or collection. Payments and transfer of funds effected on all parts of the world. Foreign exchange bought and sold. Stock exchange orders executed.

"Coupons and matured bonds collected, all operations in connection with securities like subscription to new issues, exchanges, transfers, etc., carefully attended to.

"Commercial credits opened in France and abroad, documents collected, surety bonds and similar guaranties furnished. Commercial service department fully equipped for handling consignments, warehousing, selling, etc. of merchandise.

"Reception rooms for bearers of letters of credit. Correspondence received and held for account of travellers. Payments under letters of credit effected on travellers' checks purchased. Foreign money exchanged. Checks issued. Special accounts opened.

"Jewels and securities received for safekeeping. Safe deposit boxes for rent."

Discount operations constitute the chief activity of the French banks. They have an incentive to the development of their discount operations in the fact that the Bank of France maintains a low and stable rate of discount and, further, requires a third signature on the bills presented for discount. The non-official banks therefore get most of the paper for discount, having the privilege of endorsing it for rediscount at the Bank of France.

Drafts for payment in France are usually at ninety days. Payments from abroad are in accordance with the customs and conditions of the countries concerned; from England by cheque payable in four to eight weeks, or by acceptance at three months; from countries little developed economically, in six to twelve months.

A feature of the foreign discounts is the discount with assured exchange or "boarding out of commercial paper" (pension d'effets), by which French banks advance funds on first class foreign securities or state bonds, to be redeemed at the same rate of exchange before maturity, on payment of the amount plus the discount. These transactions are profitable to the Paris banks when the rate of discount is lower, as it usually was before the war, by one-half to one-third per cent., in Paris than in any foreign market. The higher foreign rate of discount was sufficient, in such cases, to cover the banks as well as the borrowers in case of fluctuation in exchange.

A special form of loans known as "reports" is made against operations on the bourse. The credit companies also buy stocks and bonds for re-sale to their customers, while a profitable part of their business consists of the issue of new loans for which service a liberal commission is charged, the bank itself rarely taking any risk.

Deposits fall into two principal categories, those repayable on demand and those repayable at fixed future dates. Some of these latter deposits are made for periods as long as one year, eighteen months or even two years. A form of deposits known as "current accounts" represents the balances of business people. These may take the form of a debit, that is the client is given a line of credit, usually but not always against security, upon which he may draw to suit his convenience. In such case there is no credit entry made on the books, but only debit entries as the line of credit is used. As a rule debit current accounts are only opened with merchants and manufacturers. Such credits are usually given for a short time only during the busy season.

On the other hand, the rate of interest charged upon loans and upon debit current accounts is always higher than the Bank of France rate. This is possible, even though the branches of the Bank of France are everywhere to be found, because, in other respects, the terms of the credit companies are somewhat more liberal than those of the Bank of France. Then the latter bank pays no interest on credit balances.

The Six Great Credit Companies

Commercial banking in France is largely controlled by six large companies having head offices in Paris and all of them having branches located in all important cities and in many of the smaller towns. They also have certain branches, open for the season only, located at places of summer and winter resort. Then there are quite a few branches in country towns which are open only on market days.

Following is a consolidated statement for these six banks as of December 31, 1921. For comparative purposes we give the figures for December 31, 1913, except for the Crédit Com-

THE SIX GREAT CREDIT BANKS OF FRANCE

Comparative Statement of Condition—1921 and 1913

(In *francs*—00,000 omitted)

	Crédit Industriel et Commercial (Société Générale de) (1859)		Crédit Lyonnais (1863)		Société Générale Pour favoriser le développement du Commerce et de l'Industrie en France (1864)		Comptoir National d'Escompte de Paris (1889)		Crédit Commercial de France (1894)		Banque Nationale de Crédit (1913)	
	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec 31, 1913	Dec. 31, 1921	Dec. 31, 1914	Dec. 31, 1921	Dec. 31, 1915
Assets												
Cash. Bank of France and Public Treasury	31,2	13,9	500,1	174,4	362,4	168,7	398,2	124,0	08,6	25,4	181,9	13,2
Banks and Bankers	6,3	7,4					190,4	111,9	81,4	15,7	290,1	28,4
Discounted Bills and Treasury Bills	431,3	142,0	3,791,1	1,517,9	3,433,9	957,3	2,651,3	1,004,4	844,8	49,8	1,184,1	130,6
Coupons	1,9	4,8	.....	.....	62,7	41,7	.....	.....	8,3	4	30,2	9
Loans, Secured	21,7	58,2	164,3	352,2	242,9	328,5	163,6	200,9	1,0	.....	255,5	44,2
Reports	2,1	16,7			8,2	119,4	2,4	57,4	.....	19,8	.....	.....
Debtors in Current Accounts	44,5	19,7	778,1	735,7	1,245,9	593,3	339,0	167,5	401,6	64,3	396,8	55,3
Bonds and Stocks	30,0	14,3	6,2	8,9	57,0	47,3	2,5	7,5	10,3	3,4	22,9	3,4
Stocks of Affiliated Companies	36,4	.....	.....	.....	.....	.....	.....	.....	.....	.....	8,9	.....
Financial Participations	.....	.....	.....	.....	38,9	73,7	3,1	5,1	.....	1,8	.....	.....
Acceptances. Customer Liability	3,0	24,6	.....	.....	.....	.....	72,5	175,1	14,0	14,5	23,1	28,4
Foreign Exchange Guaranteed (as per contra)	31,2	.....	72,8	.....	.....	.....	82,1	.....	43,5	.....	.....	.....
Real Estate	6,0	4,0	35,0	35,0	56,4	50,4	15,0	15,8	18,6	.....	64,8	5,8
Sundry Assets	1,6	1,0	201,7	76,2	.....	6,3	125,5	42,8	16,2	5,9	18,6	1,6
Stock Subscriptions Uncalled	67,2	75,0	.....	.....	250,0	250,0	.....	.....	.....	.....	287,0	75,0
Total	714,4	381,6	5,549,3	2,900,3	5,758,3	2,036,6	4,036,6	1,912,4	1,538,3	201,0	2,763,9	386,8

THE SIX GREAT CREDIT BANKS OF FRANCE

Comparative Statement of Condition—1921 and 1913

(In *francs*—00,000 omitted)

	Crédit Industriel et Commercial (Société Générale de) (1859)		Crédit Lyonnais (1863)		Société Générale Pour favoriser le développement du Commerce et de l'Industrie en France (1864)		Comptoir National d'Escompte de Paris (1889)		Crédit Commercial de France (1894)		Banque Nationale de Crédit (1913)	
	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1913	Dec. 31, 1921	Dec. 31, 1914	Dec. 31, 1921	Dec. 31, 1915
Liabilities												
Capital	100,0	100,0	250,0	250,0	500,0	500,0	250,0	200,0	120,0	40,0	500,0	100,0
Surplus	29,0	25,0	200,0	165,0	53,1	124,5	68,7	39,4	29,5	12,6	90,4	22,7
Profits—Undivided	6,4	4,8	15,1	.....	6,4	25,0	5,8	.....	12,6	2,6	30,6	6,5
Checking Accounts	95,8	67,0	1,694,3	910,2	1,145,3	463,5	1,982,4	694,7	1,288,1	45,6	40,4	220,1
Other Current Accounts	349,6	110,3	2,962,3	1,280,4	3,821,1	1,316,4	1,358,4	668,0		80,9	2,061,3	.....
Time Deposits	78,6	49,2	50,0	38,1	145,7	207,2	26,5	51,6	.....	.....	1,6	.....
Acceptances	3,0	24,6	28,5	142,4	86,7	.....	72,8	174,9	14,0	15,3	23,1	28,4
Foreign Exchange Guaranteed—per contra	31,2	.....	72,8	.....	.....	.....	84,1	.....	43,4	.....	.....	.....
Sundry Liabilities	20,8	7	276,3	114,2	3,827,4	.....	189,9	83,8	30,7	4,0	16,5	9,1
Total	714,4	381,6	5,549,3	2,900,3	5,758,3	2,636,6	4,036,6	1,912,4	1,538,3	201,0	2,763,9	386,8

mercial for which we were compelled to use a statement for December 31, 1914, and the Banque Nationale de Crédit for which the earliest statement of which we could avail was for December 31, 1915. The former of these two grew rapidly during the war on account of several mergers with important provincial banks. The latter began business in July, 1913. It has had a phenomenal growth. The older banks have all enjoyed a marked increase in business since 1913. The statements are arranged in the order of the time in which the banks were chartered.

One is impressed at once with the liquid condition in which these great banks appear to keep their affairs. Notwithstanding their activities in distributing investment securities it will be noted that they invest a very unimportant percentage of their own funds in such securities. Substantially all their assets consist of commercial paper of various kinds which is constantly maturing. Undoubtedly a large percentage of this paper is of a class readily rediscountable at the Bank of France. The business in acceptances does not appear to be important. It would be of interest if we could know the exact amount held of treasury bills (*bons du tresor* and *bons de la défense nationale*.) The investment in buildings and equipment is most conservative. The bulk of the deposits is in the form known as "Current Accounts," then come the checking accounts. Time deposits are relatively small.

The reader may be interested to turn again to chapter v, where on pages 39 to 45 the statements of these six banks are consolidated with the Bank of France statistics and commented upon. The dividends paid in past years and the valuation put upon the shares of the banks by the bourse are shown in the table on the opposite page.

THE SIX GREAT CREDIT BANKS

DIVIDENDS AND QUOTATIONS

(*Francs* per share)

	1913		1916		1918		1920	
	Dividends	Average Quotations	Dividends	Average Quotations	Dividends	Average Quotations	Dividends	Average Quotations
Credit Industriel . .	16.25	*a* 713.50	13.10	624.10	15.78	684.71	19.00	732.53
Credit Lyonnais. . .	65.00	1,661.84	40.00	1,132.76	50.00	1,143.14	70.00	1,603.10
Societe Generale . .	20.00	*a* 816.50	10.00	*a* 490.00	15.00	*a* 685.00	15.00	*a* 749.00
Comptoir d'Escompte	40.00	1,053.07	30.00	748.20	35.00	794.42	50.00	1,079.55
Credit Commercial .	32.50	668.16	30.00	580.57	35.00	685.83	40.00	798.16
Banque Nationale de Credit	new	new	12.50	*a* 625.00	15.00	*a* 727.50	42.50	795.86

a Average of high and low.

The management of each of these great banks is vested in a board of administrators, or directors as we would say. The number of members varies from a minimum of eight to a maximum of fifteen. Details of management vary, but in a general way they are similar. In addition to the president and two vice-presidents who are always members of the board, there are usually two or three other members who are also in official positions, having charge of special departments of the bank's activities. Under these higher officials there are many of lesser importance. The number of clerks is an army in itself. The banking houses are dignified, commodious and conveniently arranged.

The Country Credit Banks

In addition to the large credit companies with headquarters at Paris there are several good sized banks in the provinces which, with their branches, serve important sections, such as the northern industrial departments tributary to Lille; the Rhone valley, north and south from Lyon;

Bordeaux and its vicinity; Nancy, Marseille and one or two other points.

Financial Banks

There are banks in France which do not transact a general banking business but use their own resources and those of groups affiliated with them in the creation and development of industrial and financial enterprises at home, in the colonies, and abroad. They participate in numerous promotions of industrial companies and are the principal underwriters of new issues of stocks and bonds, consequently having a considerable influence on the Paris Bourse. Before the war they played an important part in the floating of foreign securities in France, and have through this type of business developed a great many international connections. These banks have been quite successful in their operations and have been a powerful influence in the industrial and commercial advancement of the nation. The Banque de Paris et des Pays-Bas and the Banque de l'Union Parisienne are the two best known banks of this type, called in France "banques d'affaires," which may be roughly translated as banks for financing.

Colonial Banks and Banks for Foreign Trade

This is a large group of foreign trade banks having ramifications to all parts of the world. The banks composing this group are in many cases subsidiaries of the great credit or financial banks, or of the private banking houses. Some of these banks enjoy special rights, such as the note issuing privilege in certain of the French colonies. As a whole their operations are almost entirely limited to financing trade between France and her colonies and with foreign countries. While

most of them have their head office in Paris, some also maintain branches at the seaports.

The Private Banks

There is a notable group of national and international private bankers the members of which are engaged principally in conserving their private fortunes and those of certain aristocratic and former royal families. Aside from tradition, social standing and wealth, their influence on French finance is exercised principally through the position of the heads of these institutions on the boards of the Bank of France and of the other great financial and industrial concerns.

There are still a considerable number of private bankers in the provincial towns but the tendency is for them to disappear. The country private bank is nearly always in the hands of a family, passing from father to son. Such banks and the small joint stock banks will usually loan on less liquid collateral than that required by the Bank of France and the great credit banks and thus, from their intimate acquaintance with the people, can render banking services which could not be safely rendered by the larger banks.

Banking Reserves

French banks carry very moderate cash reserves. They do not even carry large balances with the Bank of France, for that bank allows no interest on deposits. The real reserve of the banking system of France is the note issuing power of the Bank of France, coupled with its willingness at all times freely to discount paper which conforms to its rules. Every credit bank carries a large part of its assets in paper suitable for re-discount at the Bank of France and is thus in a position, at a moment's notice, to meet any demands

which may be made upon it. Because of this arrangement which has worked satisfactorily in many crises, as well as under ordinary conditions, the French have had few, if any, "panics" in modern times. We have already noted how smoothly the banking machinery functioned in 1914. This was only a notable instance of the way the Bank of France has worked in with the other banks in other trying situations of which little was known, even in France, outside of the inner banking circles.

The Cheque

The use of the cheque was introduced in France by a law of May 23, 1865. Until the great war was well under way the cheque had been regarded as a commercial instrument rather than a substitute for currency. The laws in regard to the cheque were such that it was regarded as a dangerous form of paper for common use. It followed that practically all payments were made by the actual exchange of specie or bank notes.

During the war, with a view to conserving the use of money, efforts were made to simplify and popularize the use of the cheque. These efforts have been measurably successful.

Department of Financial Studies

In many American banks what have come to be known as statistical departments are recognized to be essential to an intelligent conduct of the business. Several of the French banks have similar departments. Following is a description of one which has functioned since 1864.

This department is divided into twelve sections which are as follows:

1. *Archives:* Here are collected, classified, catalogued and filed the books, periodicals and documents upon which the research work is based and which it is desired to preserve for reference.

2. *Bulletins:* This section analyzes the current news and edits and publishes a daily bulletin for the use of the various other departments of the bank. Over one hundred newspapers and magazines are received in which all the interesting articles are blue-pencilled and afterwards copied and placed in special folders.

3. *Registration:* This section maintains a register of all financial and economic events.

4. *Quotations:* Here are received and classified quotations from the principal stock exchanges of the world and tables are prepared giving the trend of prices.

5 to 9. These sections prepare studies upon public finance; banking; industrial and mining companies; railroads, tramways and other means of transportation; and upon general commercial topics.

10. *Actuarial:* This section prepares sinking fund tables, calculations as to prices at which securities shall be issued and other work of this character.

11. *Correspondence:* This section is charged with the correspondence of the department with the agencies of the bank and especially with clients.

12. *Copying:* This section prepares for use the studies made in the other departments.

Before the war this company sent out missions from the Department of Financial Studies. For instance there were permanent missions at Berlin, Vienna and New York.

Temporary missions, chiefly composed of engineers and other technical men, were also frequently sent out, as for instance four men spent almost three years in China and studied practically every phase of that country's economic, financial and industrial problems.

One of the principles of the department is to obtain facts and figures as far as possible from official sources, such for instance as financial reports of governments, reports from the leading banks throughout the world and reports of railroad, industrial and other corporations, but when such documents are not available secondary sources, such as newspapers, magazines and circulars are used. It is interesting to note that the filing department has about 60,000 different files on various companies and subjects.

The staff of the entire Department of Financial Studies amounts to about 120 employees who are to a great extent recruited from the École Polytechnique, École des Mines, École Centrale, École des Hautes Études Commerciales, and École des Sciences Politiques and who have won prizes in those institutions.

Branch Banks

The managers of branch banks are appointed by the Council of Administration of the home bank in Paris. Sometimes two or three offices are grouped under the direction of a principal branch. The employees are usually taken from some other place than that in which the branch is located. There is a carefully devised system of audit for the accounts of the branches. In fact some banks have two sets of auditors working independently of each other who visit the branches without warning.

Taxation

Banking institutions are subject to the same taxes as are other corporations. There is also a tax on dividends which is deducted at the time the dividend is paid and turned over in a lump sum to the government.

The Clearing House

There is but one clearing house in France, that of Paris. In was founded in 1872 and until 1917 had but eleven members. Its operations were suspended from August 2, 1914, to July 3, 1916.

In 1917 the old clearing house was merged with a new one which had been organized, the number of members was increased to about 40 and the field of operations widened. The total clearings in 1872 amounted to 1,603 million francs; increasing to 36,749 million in 1913 and to 167,159 million in 1921. The business cleared in proportion to the total volume of business done in France is much smaller than is the case in the United Kingdom or in the United States. This is due to three principal reasons. Perhaps the most important of these is the fact that so much of the daily transactions of trade in France is done on a cash basis. Then there is the fact that the banking business of the country is concentrated in a small group of banks which are able to settle the larger part of their transactions through their own offices, while all bourse operations, both on the Paris bourse and the country bourses, are liquidated by means of a stock exchange clearing house conducted by the Paris bourse. Finally, and most important of all is the "virements" service of the Bank of France which amounted in 1921 to 1,199,281 million francs, seven times the volume of business done by the clearing house.

Chapter XXIV

Crédit Foncier de France

(Mortgage Bank of France)

MORE than a century ago France first recognized the need of an institution in the nature of a national mortgage loan bank. As far back as 1818 such a bank was founded, but the complicated mortgage laws of that time made its successful continuance impossible. In 1826 Casimir Perier tried to secure modification of the burdensome legal restrictions. But it was not until 1852 that such modification was obtained largely through the efforts of M. Wolowski, a distinguished Polish economist and a naturalized citizen of France, who in that year became the head of three mortgage banks—one at Paris, one at Nevers, and one at Marseille. A little later, these three banks were amalgamated and became the present great mortgage loan bank which has ever since assumed an increasingly important place in France's financial structure as the Crédit Foncier de France.

Business and Principle Upon Which it is Based

The bank is a joint stock company closely related to the government by reason of its public character and the privileges granted to it.

In general the Crédit Foncier may be described as performing important functions in the national development as they relate to real estate, building, agriculture, and public works, functions that are similar to those performed by the Bank of France in the development of national commerce and industry.

The principle on which the business of the Crédit Foncier is based is that capital invested in land loans can be reimbursed but slowly. It is necessary, therefore, to make loans for a long term, and tie up capital for a certain time, and assure its partial return each year by a regular sinking fund.

It is also important to have new capital available when it is needed. The Crédit Foncier, in order to procure this capital, issues bonds which it sells to investors.

The Crédit Foncier uses as an amortizement for its borrowings the annuities that it receives from its debtors. This amortizement is so planned that there is a rotation between the amortizement, the payment of annuities, and fresh borrowings.

The Crédit Foncier was founded at the time of an agricultural crisis and for the purpose of remedying that crisis. Nevertheless it is not to agriculture that it has rendered the greatest services. Originally chartered to make loans in France to be secured by mortgage upon real estate, in 1858 permission was given the bank to loan for drainage. In 1860 it was authorized to make loans to towns and departments for public works and improvements and it was empowered to extend its operations to Algeria. It was also empowered at about this time to make advances in the form of discounts to the *Sous-Comptoir des Entrepreneurs*, a contractor's bank which lends on mortgage to builders after their work has reached a certain stage, and while in progress. When the buildings are completed the bills discounted by the Sous-Comptoir, and rediscounted by the Crédit Foncier, are cancelled by a regular mortgage.

Out of a total of loans granted from 1853 to 1914 amounting to 11,608,789,000 francs it had loaned to farmers only 1,403,942,000 francs against 5,425,880,000 francs to city

property holders, 20,107,000 on mixed security and 4,758,-859,000 francs to municipalities and other administrative bodies. Thus, before the war, the Crédit Foncier was rather a city borrowing institution and a syndicate of provincial lenders.

Although the bank's legal monopoly expired in 1876, yet as a practical matter and as a result of the admirable way in which its business has been developed and is managed, it still has in fact a monopoly of the mortgage business.

The bank grants two kinds of loans, mortgage loans and loans to municipalities.

Mortgage Loans

The Crédit Foncier can only loan upon a first mortgage. Mortgages upon houses or rural property may not exceed one half the value of the property. In the case of planted lands, such as woods and vineyards, only one third of the value is loaned. In any case the annuity which the borrower pledges himself to pay cannot exceed the total revenue of the property.

Requests for loans must be accompanied by all particulars needed to enable the company to determine the sufficiency of the guarantees offered. If the management deems it advisable, it has the property appraised by its inspectors. The inspectors' reports are examined by a commission and submitted to the council of administration which alone has authority to decide upon the amount to be loaned.

The Crédit Foncier can accept as security for a loan only property which has a durable and certain revenue. It is forbidden absolutely to loan upon theatres, race tracks, undivided property, that is to say property which belongs to several persons, and property title to which and revenue from which do not belong to the same person.

The period for which mortgage loans are made usually is 75 years. In the case of property likely to depreciate rapidly, loans usually are not made for more than 30 years. In view of repayments by borrowers the average length of loans does not exceed 15 to 20 years. The borrower pays his debt by means of annuities. The mechanism of amortization depends upon progressive accumulation of compound interest. The annuity due is the same throughout the duration of the loan. But it comprises both interest and amortization. During the first years the capital to be repaid being still only a small part of the whole, the greater part of the annuity goes towards interest and the amortization is small. But little by little the amortization reduces the capital remaining due and consequently in the latter years of the loan the annuity largely goes toward paying the amortization. The rate of interest charged to borrowers may not exceed by more than 0.60 per cent. the rate of the return (interest, lottery fees, and other charges) from the Company's bonds which are in circulation at the time when the rate of interest on the loans is fixed. The rate of interest in July, 1914, on the mortgage loans was 4.85 per cent., without commission. The annual payment (interest and sinking fund) was 12.74 per cent. for a loan to be redeemed in ten years; 7.87 per cent. in twenty years; 5.33 per cent. in fifty years, and 4.99 per cent. in seventy-five years. During the great war it became necessary to raise the rate of interest on mortgage loans to 7.15 per cent. The rate in 1922 is 8¼ per cent.

Nearly three quarters of the mortgage loans of the Crédit Foncier are secured by liens upon urban property, particularly in Paris and the larger cities. The average value of these loans has fluctuated considerably in the past few years, ranging from 31.576 francs in 1913 to 69,144 in 1918,

while out of about 4,400 applications for mortgage loans received during 1921, the Crédit Foncier granted 3,926 having an average value of 34,325 francs.

Loans to Municipalities (Communal Loans)

These comprise loans, with or without mortgage, to departments, to communes (towns and cities), to associations of farmers, to chambers of commerce and to hospitals and other benevolent establishments.

The direct issue of bonds by French municipalities is the exception. As a rule they borrow from the Crédit Foncier. The security for the communal loans is the revenue derived by the department or commune regularly voted and approved by the proper authorities. A provision of the French law empowers the government to intervene in case the taxes voted are insufficient to produce revenue for the payment of these bonds. It has never been necessary to apply this provision as no commune has ever become bankrupt. During 1921 the Crédit Foncier granted 3,842 communal loans having a total value of 1,210,218,000 francs.

Bonds of the Crédit Foncier

To procure funds for the loans granted by it, Crédit Foncier issues bonds of which some series are payable by drawings by lot. The total amount outstanding may not exceed fifty times the par value of the capital stock.

An idea of the extent of the operations performed by the Crédit Foncier may be gained from the statement of the bank for the fiscal year ended December 31st, 1921, at which time there were real estate bonds outstanding amounting to 3,085,937,000 francs and communal bonds, that is bonds

representing loans to departments, towns, or villages, for 3,730,351,000 francs, making a total of the bonds of the bank outstanding at that time of 6,816,288,000 francs.

The credit standing of the bank and the popularity of its bonds are indicated by the fact that the issues which are publicly offered are quickly over-subscribed. The last three issues made in 1917, 1920, and 1921 were for an aggregate of more than 2,800 million francs.

The bonds of the Crédit Foncier are accorded by law certain special advantages. They may be issued for the investment of the funds of minors and incompetents, they are non-attachable. They also enjoy a specially reduced stamp rate.

There are two kinds of bonds as there are two kinds of loans:

Bonds Against Property: These are known as *obligations foncieres*. They are bonds secured by mortgages and form the counter part of mortgage loans. Their total cannot be greater than the total of the sums due the Crédit Foncier on mortgage. They have no direct lien upon each of the pieces of property mortgaged; they are only guaranteed by the total of the mortgages held by the company, which acts as intermediary between the borrowers and the holders of the bonds.

Bonds Against Municipal Loans: These are known as *obligations communales*. They are issued against the loans to departments, towns, cities and public establishments. However, there is no direct pledge of these securities.

The bonds issued by the Crédit Foncier, against its communal loans, have many of them the lottery feature attached.

The Crédit Foncier has the monopoly of this privilege with the exception that certain large cities, particularly Paris,

may obtain permission from the government to attach lotteries to their loans. In such cases a special law must be passed giving this privilege. An exception must also be be noted in favor of the Crédit National described on page 90.

Secondary Operations

Besides these two special classes of operations (loans on mortgage and to the communities and the issue of mortgage and communal bonds), the company does ordinary banking operations under certain restrictions. It receives deposits of funds on open account and deposits of securities, executes orders on the bourse, grants advances on securities and opens accounts on advances, and also offers to the public the use of safe deposit vaults.

The statutes of the Crédit Foncier limit the amount of deposits to be taken to the amount of its capital and also require that at least a quarter of these deposits must be issued in payment in the form of accounts current to the national treasury, or in deposits of securities approved by the minister of finance. Three-quarters of the deposits must be invested in:

(1) French rentes, Treasury bonds, short term loans against bonds of the Crédit Foncier or in other securities accepted by the Bank of France as guarantee for cash advances, not to exceed 90 days; or

(2) In bills of exchange or commercial paper which must not run longer than three months and must bear at least two signatures.

Capital, Dividends, Quotations

The capital stock of the Crédit Foncier was originally 2,500,000 francs which has been increased by successive stages

to its present amount—300,000,000 francs. The stock represents 600,000 registered shares of 500 francs each. These shares which are listed on the bourse, are held by more than 47,000 persons. The special reserves and provisions constituted by the Crédit Foncier reached a total of 522 million francs on December 31, 1921.

Although a private company, the Crédit Foncier is essentially a public institution. Out of the profits are taken annually:

(1) A sum equal to 5% of the nominal capital to be distributed to shareholders.

(2) A sum of not less than 5% nor exceeding 20% is credited to the compulsory reserve fund until such time as this fund will have attained a sum equal to half the capital. The general assembly may decree that additional reserves shall be made.

(3) The remaining surplus is distributed in the form of dividends among all the shareholders. The dividend paid in 1913 was 17,924,000 francs, in 1920, 21,000,000 francs and in 1921, 27,000,000 francs.

The dividend record since 1852 may be found on pages 338-340.

Bourse quotations for Crédit Foncier stock from 1856 and for its bonds from 1879 may be found on pages 339 and 340.

The company pays taxes the same as any other corporation.

Administration

The administrative system adopted upon the organization of the company has since remained practically unchanged. This is substantially the same as that under which

the Bank of France operates. The stockholders, or rather those of the 200 largest holders present at the annual meeting in April, elect the directors and three censors. The President of the Republic appoints the governor and two sub-governors who hold office for an indefinite term.

The governor must own free of lien 200 non-transferable shares of the company's stock. He presides at meetings of the shareholders and of the directors. He has general supervision of the affairs of the company and an absolute veto power upon the acts of the directors. The two sub-governors, likewise appointed by the President of the Republic, must each own 100 shares of stock, non-transferable during their terms of office. They assist the governor and, in case of his disability, act for him.

The directors consist of a minimum of 20 and a maximum of 23, of whom three must be chosen from among the treasurers-general of the national treasury (see page 221). The administrative board includes the governor, the sub-governors, the directors and the three censors.

Subject to the veto power of the governor, the board has general charge of the affairs of the bank.

The censors have no voice in the management. They are in effect the stockholders' auditors and present an independent report to the annual general assembly of stockholders.

There is a secretary general, appointed by the governor who appoints and dismisses all other officials.

The company has no independent agencies as all of its financial operations throughout the provinces are transacted through the nation's treasurers-general. However, there are 76 representatives distributed throughout the 90 departments of France who examine titles and handle all negotiations in connection with loans. The borrower on real

estate generally does not deal directly with the representative. He applies to his notary when he wants a loan and the notary deals with the representative of the Crédit Foncier.

The Home of Crédit Foncier

The office of the Crédit Foncier is in Paris, 19 Rue des Capucines.

The buildings cover about 140,000 square feet of ground. There are vaults and subterranean corridors which extend from end to end of these buildings. These vaults, some of them, have been there from the time of the existence of the Capucines Monastery, which covered part of this same site.

The main architectural feature of the Crédit Foncier is the beautiful new Grand Hall in gray and white marble and bronze, the entrance to which is in rue Cambon. At the wickets surrounding this hall are handled all matters concerning securities. There are other public halls which bear the following titles: Hall of Drawings, Hall of Current Accounts, Grand Hall of the Funds. In the Hall of Current Accounts are handled the chief banking operations of the Crédit Foncier, the deposit accounts and the cashing of checks drawn against such accounts. In the Grand Hall of the Funds are handled subscriptions and coupon payments.

Behind the buildings are two large and very handsome formal gardens. One is called the Court of the Governor and is reserved for his use, and the other one is reserved for the use of the employees, where they may rest and promenade during the lunch hour.

On the following page may be found the statement of the bank for the fiscal year ended December 31, 1921.

STATEMENT CRÉDIT FONCIER

December 31, 1921

(In *francs*—00,000 omitted)

Assets		*Francs*
Cash on hand and in bank		7,1
Securities		1,016,5
French Treasury		35,3
Advances against securities		21,9
Correspondents		7,7
Banque Hypothécaire de France in liquidation		15,8
Loans:		
Mortgage Loans / Loans to communes	7,164,5	
Loans made with funds applicable to capital stock and reserve	76,5	
Annuities due	185,1	7,426,1
Real estate acquired by means of expropriation		1,0
Head Office Building		23,1
Miscellaneous		43,4
Earned interest		100,6
Administration expenses		19,4
		8,717,9

Liabilities		
Capital		300,0
Legal reserve		22,2
Reserve for amortization of loans		362,6
Reserves and miscellaneous provisions		137,5
Deposits and current accounts		121,3
Correspondents		54,3
Sous-Comptoir des Entrepreneurs		3,7
Deferred payments		569,9
Real estate obligations	3,085,9	
Communal obligations	3,730,4	6,816,3
Lottery bonds in circulation		48,2
Reimbursed bonds and interests repayable		55,7
Annuities encashed in advance		6,4
Miscellaneous		60,4
Earned interest not due		112,0
Profit and Loss account		47,4
		8,717,9

Chapter XXV

Agricultural and Popular Banks

IN this description of the methods of providing agricultural credit in France, we have followed closely the excellent treatise on European coöperative credit systems published in 1912 by the International Institute of Agriculture at Rome, also the data published by the United States National Monetary Commission, especially the article written by M. André Liesse, the present distinguished editor-in-chief of L'Economiste Francais.

The Principle Underlying Agricultural Credit

The main principle underlying all forms of coöperative credit is that if a group of persons combine to furnish a collective guarantee they can obtain money at lower rates of interest on the security of that guarantee than they could obtain it individually.

The collective guarantee may be that of real property. A number of landowners may obtain capital on the security of a collective mortgage on their lands. This is the basis of German Landschaften, one of the oldest forms of coöperative credit institutions. Or, again, the collective guarantee may be a personal one. A number of persons may obtain capital by making themselves jointly responsible for its repayment. Such liability may be unlimited or limited.

Upon such guarantees capital may be obtained in a variety of ways.

Having obtained the capital, the group of persons must be able to lend it to one another at a rate of interest only slightly in excess of the rate which they pay collectively.

This requires two conditions: (1) that the expenses of management shall be small in proportion to the business done, and (2) that the risk of loss shall be reduced to a minimum.

To reduce the risk of loans to members, many safeguards have been devised which are adopted to varying extents in the different systems.

Where the members are landowners and can give mortgages on their property, it is only necessary to ensure that the amount of the loan shall be fully secured by the mortgage, allowing for any possible depreciation in the value of the property. Loans on mortgage are, however, an inconvenient form of credit, where capital is only required for a comparatively short period. The following are the principal safeguards for loans given on personal security:

(1) That loans are only made to members of the group and that only persons known to be trustworthy are admitted;

(2) That membership is confined to persons residing within a small district and that, therefore, the members are personally known to one another;

(3) That the members being mutually responsible, it will be to the interest of all members to keep an eye upon a borrower and to see that he makes proper use of the money lent to him;

(4) That, in like manner, it is to the interest of all members to help a member when he is in difficulties;

(5) That the borrower is required to find sureties or give other collateral security for the repayment of the loan;

(6) That the borrower binds himself to apply his loan to a specific purpose which will bring in a monetary return sufficient to enable him to repay the sum borrowed, to pay the interest charged, and to leave a profit for himself.

It is not to be supposed that the whole of these safe-

guards are adopted in all cases. Loans, for example, are sometimes given on the borrower's mere note-of-hand, without any collateral security. The determination of the use to which a loan is to be put is most important where the borrowers are small cultivators unaccustomed to commercial methods, and is usually relaxed as their economic education becomes more advanced.

Coöperative Agricultural Credit in France

The first experiments in agricultural credit in France date back to the middle of the past century, but its real development only begins after the promulgation in 1884 of the Law on Professional Syndicates.

In 1894 the law which instituted local agricultural mutual credit banks gave a powerful impetus to agricultural credit, and in 1899 the Law on Regional Banks, which authorized the giving of state aid, consolidated agricultural credit in France into an organic system which today spreads over the whole country.

The characteristics of this system are the following: decentralization, mutuality, organization according to occupation, and state aid. Its object consists, in the first place, in supplying farmers with the means necessary for carrying on the ordinary agricultural operations by means of loans for short periods; in the second place in facilitating cooperative societies and individual farmers in carrying on operations extending over long periods.

Besides the coöperative credit encouraged by the state there exist also various minor groups of coöperative institutions which have wished to remain entirely independent and which rely solely on their own resources. We will confine our description to the state-aided banks.

State-Aided Coöperative Credit

The fundamental laws which regulate the state-aided system of agricultural coöperative credit are those of November 5th, 1894, and of March 31st, 1899. The former instituted the local mutual agricultural credit society; the latter the regional bank, which groups together the local societies of a given district, either the region, the department or a special area determined by its agricultural characteristics.

Crédit Agricole Mutuel

This is the agency through which state aid is extended to the coöperative societies. It has no capital of its own but is simply a medium for state action. The state derives its funds for aiding agriculture from the perpetual loan of 40,000,000 francs, free of interest, made by the Bank of France in 1897 in consideration of the extension of its privilege of note issue and from a share of the profits of the bank received by the state which it allocates to this use.

Subsidiary to the Crédit Agricole there are first the regional banks and secondly local societies, the members of which are the ultimate borrowers. There is a regional bank for each of the 89 departments into which France is divided for administrative purposes and a local society for each of the agricultural communes.

The Crédit Agricole, is not in any sense a bank but merely a department of the ministry of agriculture, under the direct supervision of the minister of agriculture who is assisted by an advisory commission of 32 members whom he appoints. This commission includes four senators, six deputies, the governor of the Bank of France and several heads of regional offices. They meet four times a year and suggest to the minister the amount of money which he

should turn over to the regional banks and which they in turn are to pass along through the local agricultural banks to the individual borrowers. There is also a large staff of field supervisors who superintend the workings of the system.

Purpose for Which Loans are Made

The loans must be to provide capital for financing a crop from seed time to harvest, to purchase agricultural implements or to buy a horse, a cow or fertilizers; in short to finance agricultural "turn over." Loans are not made to those who want to borrow to buy goods or chattels not needed to produce a crop or improve the land. The local offices are in communities where everybody knows everyone else. They ask what a man wants to borrow for. If he wants 400 francs to buy a cow and in four or five days does not do so, his associates know it and call him to account.

The Local Credit Societies

The local societies may be composed either of the whole or a part of the members of one or more agricultural syndicates, or of the members of one or more mutual agricultural insurance societies. The object of this provision is to strengthen their characteristic of mutuality and solidarity and to facilitate mutual acquaintance and confidence among the persons composing the credit society.

The purpose of a local credit society is to facilitate or to guarantee the operations either of the societies mentioned or of the members. They have a restricted area of operation, limited to the commune, the canton or the village. The formalities of registration are reduced to a minimum and they are exempted from certain taxes.

Their initial capital is formed by shares ("*quotes-parts*"),

subscribed exclusively by the members; it is sufficient if one-fourth is paid up. The shares, which are generally of the value of 20 or 40 francs each, do not give any right to dividend, but bear a fixed rate of interest which must not exceed 4 per cent. The societies may receive deposits with or without interest.

The law allows the utmost latitude to the societies to decide upon the character and extent of the liability of their members. In the majority of cases, the societies have decided that their members shall be liable up to the amount of the shares subscribed. Some have fixed upon a wider liability, either unlimited liability of all the members such as is found in the Raiffeisen banks, or unlimited liability of a certain number of members (for example, the members of the committee of management), or a liability extending to two, three or four times the nominal value of the shares of each member. Among the promoters of these societies, however, there is a tendency to adopt unlimited liability as the best safeguard for healthy coöperation.

The society is managed by a council and by a committee, which generally comprises a president, a vice-president and a secretary. As soon as it is established it becomes affiliated to the regional bank of the department. To do this it must subscribe for a certain number of shares in the regional bank. It is then admitted to partake in the credit facilities afforded by the regional bank, which discounts its bills or grants loans to it to form its working capital.

In the first case, when a member applies for a loan from the local society it requires him to sign a bill, which is then sent to be discounted to the regional bank, which immediately forwards the amount applied for, less the discount. In the second case, the regional bank grants to the local society a

loan which is usually proportionate to the amount of the shares subscribed. The local society, when it does not immediately require the money so obtained, deposits it with the savings bank and withdraws from time to time such sums as may be necessary. The first system, which is simpler and allows of a greater measure of control by the regional bank over the affiliated societies, is adopted in the great majority of cases.

The rate of interest on the loans must naturally be higher than the discount required by the regional banks.

As to the size of the loans, in some societies the sums which may be advanced to members are proportionate to the shares which they have subscribed, and may be 10, 15 or 20 times their amount. In other societies it is laid down that the loan shall not exceed a fixed sum, 1,000 or 2,000 francs, according to the kind of cultivation prevailing and to the solvency of the applicant.

There are different kinds of guarantee, varying according to circumstances. Certain societies insist in every case upon a surety or a "warrant," or upon the deposit of securities. Others only require such guarantees when the loan is of a certain amount. If the object of the loan is the purchase of live stock, the animals must always be insured.

The period of the loans varies, according to the nature of the operations to be undertaken, from three months to a year. The period of the bills varies according to the period of the loan and according to the system adopted by the regional bank to which the local society is affiliated. Many regional banks only allow bills of three months, with two, three or four renewals; others allow bills for a period equal to that of the loan. In the case of renewals an instalment payment is almost always required.

At least three-fourths of the profits of the society are allocated to the formation of a reserve fund, until that fund is equal to half the paid-up share capital. The balance, if the general meeting so decides, may be divided among the individual members in proportion to their dealings with the society.

When a society is dissolved the reserve fund and other assets are divided among the members in proportion to their shares unless (as is generally the case) the rules have provided for their application to some work beneficial to agriculture.

The Regional Banks

The agricultural credit banks of the second degree, called regional banks, are regulated by the Law of March 31st, 1899. They are based upon the same principles as the local societies and they enjoy the same privileges. They are composed of local societies and of individual farmers, but two-thirds of the shares are reserved by preference to the former. The local societies usually pay up their shares in full; the individual members as a rule only pay one-forth. Each member is liable up to the amount of the shares subscribed. The committee of management of a regional bank is elected from the representatives of the local societies. They receive from the state, out of the funds furnished by the Bank of France, loans without interest, up to the amount of four times their paid-up capital, for a period of five years, subject to renewal. If, for example, there are in a department 10 local societies which have each subscribed 10,000 francs, their shares form an initial capital of 100,000 francs for the regional bank; the government will then make an advance of 400,000 francs.

The regional banks are authorized to receive deposits in the form of running accounts and to issue certificates of deposit. The law limits the interest allowed to a maximum of 5 per cent., and fixes the maximum of the deposits which the banks may receive and the certificates which they may issue at three-fourths of the amount of the loan notes which they hold. The profits are carried to the reserve fund which serves, in due course, to repay the state loans.

To the primary object of the regional banks others have been added in recent years, namely, the making of loans to cooperative societies for the production and sale of agricultural produce, and of loans to individual farmers for the acquisition and improvement of small holdings. For these purposes special advances are made by the state to the regional banks out of the fund provided by the Bank of France.

How Loans Are Made

The state loans to the regional office without interest; the regional office loans to the local office at 3 per cent.; the local office loans to the farmers at between 3½ per cent. and 4 per cent.; in the northern region at 3½ per cent. and in the southern at 4 per cent. At least these were the rates prior to the war.

The farmer draws a bill to himself, takes it to the office of his local society and the board of administration then considers it. If they approve it, the president signs it—it then has two signatures—and then sends it to the regional bank. If the regional bank has plenty of money it will lend the money directly; if not, the president of the regional bank signs it—it then has three signatures—and it is taken to the Bank of France for rediscount. For example: During the crisis in

the wine-growing region at Montpellier in the south of France in 1906, the regional bank had one million francs capital; the government then added four; that made five, but they loaned at that bank altogether 16 million francs. The difference was obtained from the Bank of France by the method described above.

Loans are made only to members. Up to the close of 1919, the latest date for which we have data, the loans by the state through the Crédit Agricole had aggregated 124,143,000 francs, of which amount 102,097,000 francs were still outstanding. There has never been a loss by the Crédit Agricole.

Coöperative Societies

Since 1906 there has been another kind of credit—collective credit for a long term of years for coöperative societies. These are societies for the production, preservation, sale or transformation of agricultural products. There are coöperative agricultural societies in the wine-growing regions. There are coöperative dairy societies for making butter and cheese; coöperative societies which use waterfalls and electricity; coöperative mills to grind corn; coöperative railways to bring beet roots to the sugar refinery; coöperative distilleries and coöperative warehouses for corn.

Loans to these societies are made on the consolidated liability of all of the members and are also a mortgage upon their real estate; their responsibility is absolutely without limit.

Loans to these societies by the government are limited to twice the capital furnished by themselves. These loans are made for long-time investments. If a coöperative society wants a capital of 150,000 francs it has to contribute up

to 50,000 francs and regional banks will contribute 100,000 francs of government funds at 2 per cent.

The minister of agriculture, acting with the commission above referred to, determines the amount of the loans, provided the regional bank in the first instance approves and sends the application to the commission. If the regional bank does not approve the case goes no further.

Membership: The members must be landowners, perhaps only for a small amount. The number of shares which a man may take depends upon circumstances. In a coöperative dairy a member having 20 cows would have 20 shares, one with one cow one share, but both are liable—without limit. All members when organizing sign a document accepting the liability.

Dividends: The coöperative societies pay no dividends as such, but a stockholder may receive payments which cannot in any case exceed 4 per cent.

Profits: These payments come from the profits of the societies. At the end of the year the profits of the coöperative societies are determined and divided into different parts.

The first payment is 2 per cent. to the regional bank which makes the loan. The second charge is for the sinking fund for the capital of the loan. The third distribution is to the shareholders for interest, which cannot exceed 4 per cent. upon the capital they have paid in. If anything remains, it is divided between the members, not according to the capital which they have provided, but according to the amount of business they have done.

The government loans without interest to the regional banks, but the latter charge 2 per cent. for their advances to the coöperative societies. This is because the regional bank

guarantees the government against loss, standing between it and the societies.

The amount of loans to coöperative societies is limited by law to one third the return which comes annually from the Bank of France. They cannot touch, for instance, the 40 million francs paid over by the Bank of France in 1897.

Purpose: The purpose of the coöperative societies must be exclusively agricultural. However, this term is rather liberally construed, e. g., a coöperative weaving society might borrow on the transformation of the wool to yarn—this would be regarded as agriculture—but beyond that step it is no longer agriculture. Meat from pigs raised can be borrowed against, but not meat obtained from pigs bought, and so on.

Popular Banks

A law was promulgated in March, 1917, with the object of facilitating the organization of credit for small traders and small manufacturers. Mutual guarantee societies may now be constituted among men of these classes. Capital may be taken up by subscribers who are not entitled to reap the benefits of the organization. Special rules lay down the conditions on which subscribers must work. Members may withdraw at the end of any year after giving three months formal notice, but the money value of their shares may only be paid over after all operations that were outstanding at the date of payment or withdrawal have been liquidated. Special precautions are taken to prevent any credit being given rashly, and as regard profits 10 per cent. automatically goes to reserve, 4 per cent. interest will then be paid to shareholders, three-quarters of the surplus will go automatically to reserve and what is left is to be divided among the various members

according to the amount of business they have done. Payments to reserve cease to become obligatory when the reserve funds equal half the capital. The directors are personally responsible in the event of any infringement of the articles. Subscribers and directors must be of French nationality. The act extends to small traders and manufacturers privileges somewhat similar to those enjoyed by agriculturists through their syndicates.

Chapter XXVI

The Savings Banks

THE first savings bank to be established in France was that of Paris. This was founded in 1818 by Baron de Lessert. In October, 1817, the Baron wrote to a friend in England as follows:

"I have the honor to reply to your letter of the 21st instant, in which you requested me to furnish you with some details of what had been done in France, in respect to savings banks. I feel gratified that you have addressed your inquiries to me; but I regret that I am unable to afford you any satisfactory information on this subject. We in this country have long been impressed with a sense of the value of these benevolent establishments, which are more useful than any other charities, since they tend to prevent poverty, whilst the majority of others often have a contrary effect. But in spite of this conviction, the events of the Revolution and occurrences of a more recent date, have prevented the fulfilment of our wishes in this respect.

"Institutions, bearing an analogy to these banks, have, however, been formed at different periods under the designation of 'Caisses d'Epargnes', 'Caisses des Employés et Artisans', 'Caisses des Juives et Orphelins', etc., etc., which are a specie of tontines, or life-investments, similar to the 'Life Insurance Societies'; but these, having been directed by views of personal interest, have been attended with little success.

"In almost all public offices, savings funds have been likewise established, they consist of a reserve from the

salaries of persons in office, and provide pensions on retirement, or during old age.

"I have also assisted in the formation of the 'Sociétés de Prevoyance' (Friendly Societies) in which workmen deposit a weekly sum, and from which they derive relief in sickness, infirmity, or old age. There are nearly 100 of these societies in Paris, each comprising from 80 to 120 members, and having their separate rules and constitutions.

"Those who devote themselves to whatever can contribute to the welfare of their fellow creatures, have been struck with the great advantages attending the 'savings banks' which have arisen in England within these few years; they are delighted with their success, and have taken a lively interest in their prosperity. We have procured the requisite prospectuses and information; and are in hopes that we shall be enabled in a short time to imitate the honorable and useful example, which yourself and your colleagues have set, and which has been crowned with such complete success."

The First Savings Bank Founded in 1818

The savings bank of Paris was established by royal ordonnance dated the 21st of the following July. Associated with De Lessert in founding it was the Duke of Larochefoucauld-Liancourt. The example of Paris was followed by Bordeaux, Metz, Rouen, Marseille, Brest, Le Havre, Lyon, Nantes, Troyes and Reims.

Up to 1835 these banks, at one time called "Ordinary Savings Banks" but which are now denominated as "Private Savings Banks," to distinguish them from the national or postal savings banks, existed under different forms such as private institutions, joint stock companies and the like. Since then they have been under government surveillance

and have been considered as institutions "of public utility." There are now three groups of the private savings banks, viz.: those independent of municipal authority and subject only to state control; second, those which are more or less connected with municipal organizations and in which the mayor is occasionally one of the chief officers, and other officers of which can be designated by the municipal council, and third, those which are much more closely connected with the municipalities, in which the majority of the officers are legally appointed by the municipal council, but even these savings banks have an independent legal existence apart from the city.

All three classes practically are organized in the same way. They are governed by a board of directors which, according to the groups just mentioned, is self-electing or is appointed altogether or in part by the municipal council. They have two classes of funds, those deposited by the people and the surplus accumulated out of the profits of the business.

The savings banks carry only sufficient cash reserve to meet the probable demand of several days. They deposit only with the Caisse des Dépots et Consignations (see page 225) which may be thought of in this connection as a central bank for the savings banks.

Each savings bank has an account current with the Caisse, where it is legally bound to deposit the sums received from its depositors and from which it draws the funds necessary to meet withdrawals.

Savings banks are allowed by the Caisse a rate of interest on their deposits fixed each year according to the rate of income derived by the Caisse from its investments. First a

sum equal to ¼% of the total savings banks funds is credited to a special reserve and guaranty fund established by law which must accumulate until it reaches 10%. This fund is applicable to reimburse the Caisse for any losses resulting from the sale of its securities held as an investment for savings banks funds.

The savings banks, out of the interest received by them, must put aside an amount for their managing expenses and the building up of a personal capital, not less than ¼% and not more than ½% of the total of the accounts of depositors. Therefore the rate of interest which they allow their clients is from ¼% to ½% less than that received from the Caisse.

How Deposits Are Secured

The deposits are secured first by the funds lodged with the Caisse des Dépots et Consignations; second, by the property of the savings banks themselves; third, by the general funds which have been provided out of the ¼% which is held back from the income on investments.

Personnel of Management

Generally the banks select as officers men of influence in the community who are apt to be men of leisure, very often men who have retired or who are of independent means, but there are frequently important business men on the board. In Paris, for instance, there are several well-known bankers on the board.

State Control

The savings banks have always been subject to the ministry of labor. Up to 1895 control was limited to the inspection in Paris of their reports and documents. At that

time, through the coöperation of the ministry of finance arrangements were made for a system of inspection on the spot. The treasurers-general in the different departments now forward reports on the savings banks to the minister of finance who delegates his own inspectors to examine them. These reports are then communicated to the ministry of labor which examines them in turn and then addresses to the banks the necessary comments.

These examinations by the treasurers-general are ordinarily made once a year; the inspectors of finance make the round of the country and examine each bank perhaps only once in four or five years.

Withdrawals of Deposits

By law 15 days notice of withdrawals is required; as a matter of fact not more than four or five is necessary. The law provides that in case of a crisis the bank may postpone its payments and pay out only fragmentary funds.

National (Postal) Savings Banks

These banks were inaugurated in 1881. Leaving details aside the system is the same as that of the ordinary savings banks, except, first, that all post-offices act as its instruments for the collection of funds and, second, that the legislature of 1881, in order not to permit too much competition with the private savings banks, decided that interest paid by the Caisse des Dépots et Consignations on postal savings banks deposits should be 50 centimes less than that paid on the deposits of the ordinary savings banks.

The rules governing both classes of savings deposits are the same as to the period when interest is allowed and the time of withdrawal and the general conduct of the business.

The national savings banks are under control of the ministry of public works which controls the post office.

The Caisse des Dépots et Consignations merely holds for account of the national savings banks the securities purchased with their funds, which remain their property, and the income of which is credited to them in full. They constitute their own reserve fund by a levy of 0.60% of the amount of the deposits—a levy which permits them to cover their own managing expenses.

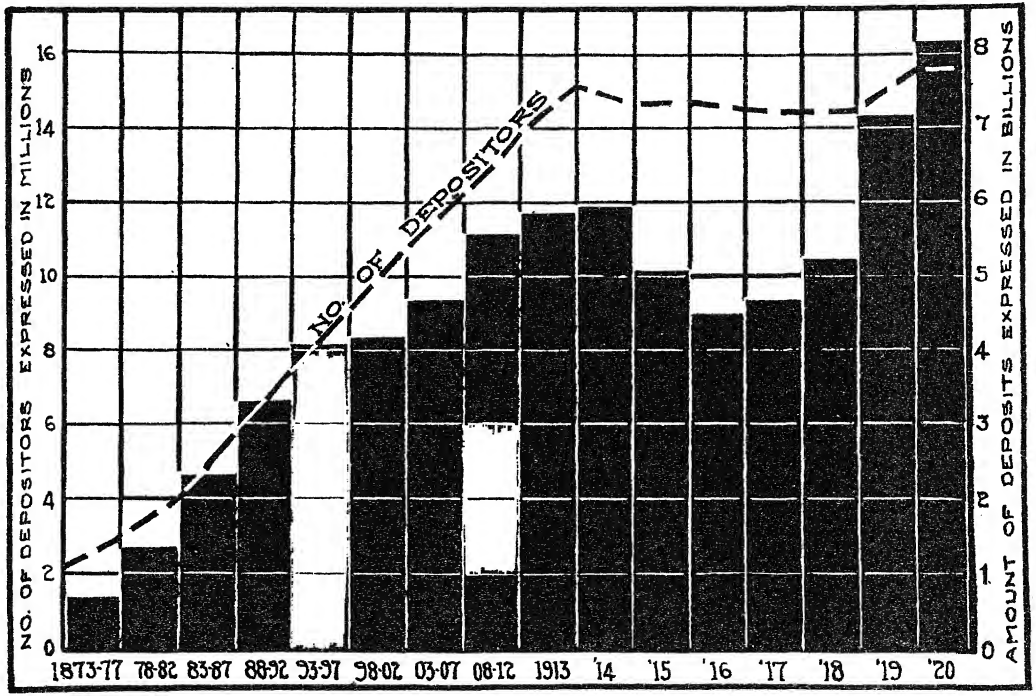
The rate of interest allowed by the Postal Savings Bank to its depositors must be ¾ per cent. lower than the interest allowed by the Caisse to the private savings banks.

Maximum Deposits Allowed

The maximum deposit allowed by law in any savings bank was originally 1,500 francs and no one could deposit more than 1,500 francs in any one year. In 1917 this limit was raised to 3,000 francs, and in 1919 it was again raised to 5,000 francs.

Amount on Deposit in Savings Banks

The chart here printed shows at a glance the growth of deposits from 1873 to 1920, inclusive. Prior to 1912 we have used the average annual figures for five-year periods. The figures at the base of each column give in millions the number of depositors. From 1913 to 1920, inclusive, the figures give the status of the accounts at the end of each year. It will be noted that during the war deposits fell off, but that since the armistice they have increased in a marked manner. Preliminary figures indicate that there was a further substantial increase in deposits in 1921.



SAVINGS BANKS (National and Private)

Average amount, in francs, due depositors annually for each 5 year period, 1873-1912; and actual amount due at end of year, 1913-1920 inclusive.

Chapter XXVII

The Fortune of France

IN 1912 M. Edmond Théry, the editor of *L'Économiste Européen*, estimated the public fortune of France to be 302,617 million francs. His analysis is as follows:

PUBLIC FORTUNE OF FRANCE

At the Close of 1912

(In *francs*—000,000 omitted)

Real estate—not improved	77,900
Improved	60,503
Farm animals and agricultural supplies	9,181
Industrial and commercial funds	10,316
French bonds and stocks	69,240
Foreign bonds and stocks	42,675
Gold	7,487
Silver	1,961
Furniture, objects of art and luxury	21,060
Automobiles, horses and carriages	2,294
	302,617

In no country in the world is wealth more evenly diffused than in France. We have already noted that there are some 15 million savings banks accounts. This would be about two accounts in each family. In 1919 the average deposit in the national savings banks was 384.88 francs and in the private savings banks 588.20 francs.

It is estimated that 75 per cent. of the French families own their own homes.

Perhaps the most telling evidence of the wealth of France is to be found in the realization that around 80 per

cent. of the cost of the war was financed by the French people themselves. That is, as shown in the earlier chapters of this book, of an estimated war time expenditure of 207½ billion francs, all but about 35 billion was provided at home.

In the three years, 1919, 1920 and 1921, the French home market absorbed over 82 billion francs worth of government issues and in addition over 27 billion francs worth of industrial, railroad and municipal issues.

Prior to the war the French people were in receipt annually of an income from colonial and foreign investments variously estimated at from two to three billion francs. Their ability to provide for the war expenditure was due in part to realizing upon some of these investments, but after making liberal allowance for this change in the form of investment and for the known fact of the pouring out of billions of hoarded gold, there must have been intensive saving to have accomplished such a result. It is this ability to save which made France, before the war, one of the richest nations in the world.

We believe that notwithstanding the losses occasioned by the war, the wealth of France today, estimated on a specie basis, closely approximates or perhaps equals her pre-war wealth. This is partly due to the repatriation of Alsace and Lorraine, but it is also due to the fact that the war apparently served to intensify the normal saving habit of the people and thus enabled them to meet the burden which it brought without seriously impairing the pre-war national fortune.

Quotations

	5% Rente Price 100 Francs Rente		a Bank of France Stock Per Share 1,000 Francs			Critical Events
	H.	L.	1st b Half	2nd b Half	Dividend	
	fr. c.	fr. c.	fr. c.	fr. c.	fr. c.	
1798	24 25	9 00	.....	.....	.....	Credit destroyed by Revolution.
1799	22 50	7 00	.....	.....		Bonaparte First Consul.
1800	44 00	17 37	.....	.....	50 00	Bank of France Founded.
1801	68 00	39 50	.....	.....	100 00	Finances Reorganized.
1802	59 00	50 15	1212 50	1176 25	90 00	
1803	66 60	47 00	.....	.....	112 00	
1804	59 75	52 20	.....	.....	80 00	Napoleon Emperor.
1805	63 30	51 90	.....	.....	72 00	Austerlitz.
1806	77 00	60 40	.....	.....	72 00	
1807	93 40	71 30	.....	.....	82 00	Peace of Tilsit.
1808	88 15	78 10	1344 37	1243 12	73 00	
1809	84 00	76 25	.....	.....	74 00	
1810	84 50	78 40	.....	.....	74 00	
1811	83 40	77 70	.....	.....	66 00	
1812	83 60	76 50	.....	.....	69 75	
1813	80 20	47 50	.....	.....	75 50	
1814	80 00	45 00	1100 00	1185 62	60 00	Napoleon Abdicates.
1815	81 65	52 30	932 50	1073 12	64 00	Waterloo.
1816	64 40	54 30	.....	.....	74 00	
1817	69 00	55 05	.....	.....	87 50	
1818	80 00	60 00	.....	.....	99 80	
1819	73 15	64 85	.....	.....	66 00	
1820	79 60	70 10	.....	.....	64 50	
1821	90 65	73 75	.....	.....	286 00	
1822	95 00	83 35	.....	.....	73 00	
1823	93 65	75 50	.....	.....	91 50	
1824	104 80	93 00	.....	.....	92 00	

a Founded 1800.
b Market price at time of declaring dividend.

AUTHORITIES

Quotations:— *1798-1916 — Annuaire Statistique de la France*, except Bank of France stock 1802-1854, Octave Noël, "La Banque de France". *1917-1920, Annuaire des Valeurs de la Bourse de Paris, 1921; L'Économiste Francais.* Average Price — Rentes:— 1825–1910, *Bulletin de Statistique et de Legislation Comparée.* Dividends:—*1925-1920—Annuaire des Valeurs de la Bourse de Paris.*

QUOTATIONS

	3% Rente (Perpetual) Price 100 Frs. Rente						*a* Bank of France Stock Per Share 1000 Frs.				*b* Crédit Foncier de France										Critical Events
											Stock Per Share 500 Frs.				Bonds 3% Interest, Prizes Secured by				Paris 3% Consols. 1871 400 Frs. *f*		
	H		L		Average		1st Half *e*		2nd Half *e*		Dividend		H		L		Dividend		Mortgages 1879 500 Frs. *f*		Municipals 1879 500 Frs. *f*			
	fr.	c.	fr.	c.	fr.	c.	fr.	c.	fr.	c.	fr.	c.	fr.		fr.		fr.	c.	fr.	c.	fr.	c.	fr.	c.	
1825	76	35	59	80	68	82	2202		2050		98	00	.....		.....		.....		.....		.....		.....		
1826	72	35	63	00	67	11	.....		.....		91	50	.....		.....		.....		.....		.....		.....		
1827	73	70	66	15	69	92	.....		.....		74	00	.....		.....		.....		.....		.....		.....		
1828	76	10	66	80	71	43	.....		.....		111	00	.....		.....		.....		.....		.....		.....		
1829	86	10	73	95	80	05	1857		1920		64	00	.....		.....		.....		.....		.....		.....		
1830	85	35	55	00	70	78	.....		.....		85	00	.....		.....		.....		.....		.....		.....		July Revolution
1831	70	50	46	00	60	59	.....		.....		81	00	.....		.....		.....		.....		.....		.....		
1832	71	00	62	00	68	30	.....		.....		71	00	.....		.....		.....		.....		.....		.....		
1833	80	50	70	00	76	33	.....		.....		66	00	.....		.....		.....		.....		.....		.....		
1834	80	00	73	60	77	94	.....		.....		80	00	.....		.....		.....		.....		.....		.....		
1835	82	35	76	75	79	86	.....		.....		98	00	.....		.....		.....		.....		.....		.....		
1836	82	20	76	85	80	29	.....		.....		112	00	.....		.....		.....		.....		.....		.....		
1837	81	45	77	75	79	48	.....		.....		126	00	.....		.....		.....		.....		.....		.....		
1838	82	20	78	15	80	60	.....		.....		114	00	.....		.....		.....		.....		.....		.....		
1839	82	50	77	80	80	90	.....		.....		144	00	.....		.....		.....		.....		.....		.....		
1840	86	65	65	90	78	79	3575		3302		139	00	.....		.....		.....		.....		.....		.....		
1841	80	60	75	60	79	02	.....		.....		126	00	.....		.....		.....		.....		.....		.....		
1842	82	25	76	60	80	09	.....		.....		136	00	.....		.....		.....		.....		.....		.....		
1843	83	20	78	70	81	05	.....		.....		122	00	.....		.....		.....		.....		.....		.....		
1844	85	65	79	75	82	70	.....		.....		107	00	.....		.....		.....		.....		.....		.....		
1845	86	40	80	90	84	20	.....		.....		133	00	.....		.....		.....		.....		.....		.....		
1846	85	00	80	40	83	19	.....		.....		159	00	.....		.....		.....		.....		.....		.....		
1847	80	20	74	65	77	31	3315		3310		177	00	.....		.....		.....		.....		.....		.....		
1848	75	20	32	50	49	80	1262		1782		75	00	.....		.....		.....		.....		.....		.....		Monarchy Overthrown
1849	58	50	44	70	53	65	.....		.....		106	00	.....		.....		.....		.....		.....		.....		
1850	58	80	53	90	56	67	.....		.....		101	00	.....		.....		.....		.....		.....		.....		
1851	67	00	54	50	57	13	.....		.....		105	00	.....		.....		.....		.....		.....		.....		
1852	86	00	63	90	74	95	.....		.....		118	00	.....		.....		6	25	.....		.....		.....		Second Empire
1853	82	15	71	70	79	52	.....		.....		154	00	.....		.....		17	50	.....		.....		.....		
1854	76	35	61	50	70	30	2937		2987		194	00	.....		.....		17	50	.....		.....		.....		

a Founded 1800.
b Founded 1852.
c 1856-1900 price on December 31.
d 1911-1920 Average of high and low.
e Market price at time of declaring dividend.
f Average price.

QUOTATIONS

	3% Rente (Perpetual) Price 100 Frs. Rente						*a* Bank of France Stock Per Share 1000 Frs.			*b* Crédit Foncier de France Stock Per Share 500 Frs.			Bonds 3% Interest. Prizes Secured by		Paris 3% Consols. 1871 400 Frs. *f*	Critical Events
	H		L		Average		H	L	Dividend	H	L	Dividend	Mortgages 1879 500 Frs. *f*	Municipals 1879 500 Frs. *f*		
	fr.	c.	fr.	c.	fr.	c.	fr. c.	fr. c.	fr. c.	fr.	fr.	fr. c.	fr. c.	fr. c.	fr c.	
1855	71	75	63	85	67	12	.....	.....	200 00	.....	.....	17 50	.....	.....	.....	
1856	75	45	61	50	70	42	4002	3100	272 00	*c* 625	.....	17 50	.....	.....	.....	
1857	71	10	65	85	68	02	4006	2720	247 00	590	.....	20 00	.....	.....	.....	Financial Crisis
1858	74	95	67	50	70	65	3005	2075	114 00	675	.....	22 50	.....	.....	.....	
1859	72	50	60	50	67	49	3010	2500	115 00	720	.....	25 00	.....	.....	.....	
1860	71	42	67	10	68	99	2955	2780	140 00	950	.....	30 00	.....	.....	.....	
1861	70	15	66	85	68	29	2980	2820	147 00	1180	.....	37 50	.....	.....	.....	
1862	72	90	67	40	69	26	3500	2885	158 00	1396	.....	40 00	.....	.....	.....	
1863	70	60	66	10	68	55	3500	3300	165 00	1225	.....	45 00	.....	.....	.....	
1864	67	75	64	45	66	05	3595	3260	235 00	1265	.....	47 50	.....	.....	.....	
1865	69	57	66	30	67	74	3008	3420	154 00	1325	.....	52 50	.....	.....	.....	
1866	70	00	62	45	68	01	3795	3340	156 00	1400	.....	57 50	.....	.....	.....	
1867	70	75	65	25	69	03	3630	3100	107 00	1340	.....	62 50	.....	.....	.....	
1868	72	05	68	25	69	91	3300	2990	90 00	1539	.....	67 50	.....	.....	.....	
1869	73	90	69	80	71	41	3180	2625	107 00	1747	.....	72 50	.....	.....	.....	
1870	75	10	50	80	65	79	2940	2260	114 00	885	.....	12 50	.....	.....	.....	War with Prussia and
1871	58	45	50	35	54	19	3830	2325	270 00	950	.....	32 50	.....	.....	272 06	Commune
1872	57	25	52	40	54	80	4705	3525	320 00	840	.....	35 00	.....	.....	250 21	German Indemnity
1873	59	10	53	25	56	50	4515	4160	360 81	819	.....	35 00	.....	.....	250 31	Payments
1874	64	80	57	80	60	80	4380	3600	293 80	862	.....	36 25	.....	.....	270 18	
1875	66	95	61	60	64	91	3975	3760	206 18	910	.....	36 25	.....	.....	309 62	
1876	73	00	65	00	68	82	3875	3500	149 47	635	.....	23 50	.....	.....	355 28	
1877	74	35	66	10	70	86	3735	2990	97 93	629	.....	12 50	.....	.....	371 19	Balkan War
1878	77	75	69	95	75	08	3270	3000	97 93	812	.....	35 00	.....	.....	395 08	
1879	84	50	76	30	80	70	3410	3000	113 40	1099	.....	37 50	490 27	491 30	410 79	
1880	87	30	81	10	84	45	3810	3200	154 63	1443	.....	42 50	478 08	479 55	399 07	
1881	87	25	82	00	84	97	6807	3675	257 72	1777	.....	50 00	451 68	456 46	395 55	
1882	84	75	78	65	82	19	5995	4675	298 96	1340	.....	55 00	438 06	440 77	392 93	
1883	82	65	74	15	79	05	5475	5100	232 98	1223	.....	60 00	442 71	442 53	391 85	
1884	79	50	75	10	77	70	5240	4820	220 61	1334	.....	60 00	446 14	446 31	394 54	Chinese Campaign
1885	82	40	76	20	80	41	5200	4570	190 71	1346	.....	60 00	451 74	453 53	397 01	
1886	83	90	80	10	82	32	4730	4050	159 78	1422	.....	60 00	468 75	468 85	398 91	
1887	82	90	76	00	81	07	4350	4000	154 63	1397	.....	62 00	479 17	478 49	394 95	

a Founded 1800.
b Founded 1852.
c 1856-1900 price on December 31.
d 1911-1920 Average of high and low.
e Market price at time of declaring dividend. Average price.

QUOTATIONS

	3% Rente (Perpetual) Price 100 Frs. Rente						a Bank of France Stock Per Share 1000 Frs.			b Crédit Foncier de France Stock Per Share 500 Frs.			Bonds 3% Interest, Prizes Secured by				Paris 3% Consols. 1871 400 Frs.		Critical Events
	H		L		Average		H	L	Dividend	H	L	Dividend	Mortgages 1879 500 Frs. f		Municipals 1879 500 Frs. f				
	fr.	c.	fr.	c.	fr	c.	fr. c.	fr. c.	fr. c	fr.	fr.	fr. c.	fr	c	fr	c	fr.	c.	
1888	84	60	80	90	82	63	4310	3350	146 38	1362	.....	62 00	482	82	478	83	398	54	
1889	88	40	82	50	85	77	4350	3600	156 69	1332	.....	63 00	467	88	465	61	400	68	
1890	96	37	87	40	91	60	4460	4000	161 85	1301	.....	63 00	467	95	466	62	407	24	
1891	96	70	92	20	95	23	4680	4280	165 64	1245	.....	60 00	475	61	474	37	408	91	
1892	100	70	95	00	96	69	4580	3850	135 41	1015	.....	50 00	481	15	479	96	411	71	
1893	99	60	93	60	97	86	4185	3725	129 16	1037	.....	45 00	474	62	475	89	418	25	
1894	104	50	96	80	100	93	4160	3530	117 79	915	.....	44 00	494	32	495	49	417	88	
1895	103	75	99	60	101	89	3940	3560	107 30	[illegible]	.....	25 00	499	79	501	52	417	81	
1896	103	25	100	60	102	04	3750	3520	119 79	[illegible]	.....	26 00	501	56	505	55	420	61	Russian Alliance
1897	105	25	101	60	103	34	3830	3500	113 54	650	.....	[illegible] 00	505	72	497	48	418	90	
1898	104	30	101	35	102	81	3870	3500	114 58	720	.....	[illegible] 00	504	90	520	26	417	10	
1899	103	05	98	75	101	21	4410	3730	135 41	705	.....	[illegible] 00	490	37	484	70	408	69	
1900	102	30	99	15	100	59	4300	3770	151 04	c 684	.....	[illegible] 00	497	32	459	39	405	38	
1901	102	45	99	85	101	21	3900	3640	125 00	720	630	26 00	497	32	475	53	409	12	
1902	102	00	98	45	100	59	3870	3725	125 00	755	711	26 00	506	91	489	38	412	38	
1903	100	17	96	25	98	11	3925	3700	135 41	765	662	27 00	505	93	479	13	410	06	
1904	99	10	94	00	97	54	3920	3740	135 41	740	655	27 00	505	53	477	60	408	20	
1905	100	50	97	70	99	42	3920	3710	135 41	745	690	28 00	508	54	487	74	411	00	
1906	99	90	94	90	97	66	4089	3790	156 24	735	680	28 00	504	75	485	34	406	90	
1907	96	20	93	75	94	85	4250	3885	182 26	699	653	30 00	502	11	479	87	403	66	
1908	97	65	94	15	96	22	4295	4075	166 66	740	665	30 00	502	34	475	27	405	27	
1909	99	25	96	25	97	78	4350	4100	145 83	837	720	30 00	506	18	486	60	407	07	
1910	99	20	96	45	97	97	4375	4180	145 83	845	790	32 00	506	19	489	02	405	43	
1911	97	55	93	50	d95	52	4327	3850	145 83	854	787	32 00	503	37	480	23	402	86	
1912	95	60	88	25	91	92	4700	4060	166 66	865	780	35 00	498	27	461	09	398	00	
1913	90	80	83	45	87	12	4880	4451	208 33	945	815	37 00	489	06	444	95	394	08	
1914	88	50	70	25	79	37	4950	3900	197 91	910	685	25 00	488	13	432	76	394	32	World War Aug. 1
1915	73	80	63	75	69	82	5000	4185	208 33	750	620	25 00	473	28	439	70	372	68	
1916	64	60	60	35	62	47	5400	4200	250 00	780	610	25 00	462	00	427	42	364	48	
1917	62	75	58	50	60	62	5330	5080	252 63	685	622	30 00	465	99	431	29	365	87	
1918	64	20	56	75	60	47	5262	5200	252 63	806	650	30 00	483	67	450	86	378	15	Armistice Nov. 11
1919	65	15	59	40	62	27	6000	5375	252 63	895	740	35 00	482	15	449	71	379	82	Peace Treaty
1920	60	15	53	00	d56	57	6000	5050	276 31	930	675	40 00	438	45	400	94	323	89	
1921	50	..	55	12	52	06	5025	5300	300 ..	795	665	30 ..	450	[illegible]	439	59	341	64	

a Founded 1800.
b Founded 1852.

c 1856-1900 price on December 31.
d 1911-1920 Average of high and low.

e Market price at time of declaring dividend.
f Average price.

Authorities

As this book largely deals with events which have transpired since 1914, the chief reliance for facts and statistics has necessarily been placed upon current official and unofficial publications. In addition to the authorities mentioned in the Foreword and in the text, the following are the chief publications which have been consulted:

OFFICIAL PUBLICATIONS

Annuaire Statistique. Statistique Générale de la France, Paris.

Contains valuable statistics in regard to climate, population, agricultural production, industries, transportation, money, credit and banking, as well as data in regard to the public debt and public income and expenditure.

Budget, The: "Projet de Loi" and the reports thereon made annually to the Senate and to the Chamber of Deputies by the finance commissions of each chamber.

Bulletin de Statistique et de Législation Comparée. Ministry of Finance, Paris. Monthly.

Contains the only detailed financial statistics, outside of those appearing in the budget reports, which have been available since 1914.

Bulletin de la Statistique Générale de la France. Paris, Quarterly.

Gives economic statistics, especially re foreign trade, prices, wages, etc.

Compte Général de L'Administration des Finances. Ministry of Finance, Paris, Annual.

Gives complete statistics in regard to the national finances. Last number issued in 1914 covering the year 1913.

Foreign Trade: Tableau Générale du Commerce et de la Navigaiton (Direction Générale des Douanes). Paris, Annual.

Fortnightly Survey of French Economic Conditions. French High Commission, New York, Dec., 1919—July, 1921.

Journal Officiel de la République Française.

Printed daily during sessions of parliament. Contains laws and reports on debates.

UNOFFICIAL PUBLICATIONS

PUBLIC FINANCE, BANKING AND CURRENCY

REVOLUTIONARY PERIOD

1789-1799

AULARD, A.—*The French Revolution*, a political history. 1789-1804. (Translation.) 4 Vols. London, 1910.

Aulard discusses the underlying causes of the French revolution which were largely economic in their origin.

HIGGS, HENRY—*Cambridge Modern History*. Vol. 8. The French Revolution. Cambridge, 1904.

An excellent short study of the finances of this period.

MADELIN, LOUIS—*The French Revolution*. (Translation.) New York, 1916.

Contains a concise analysis of the abuses which made the revolution possible. "There was a loud cry for equal taxation." Also deals satisfactorily with the financial efforts of the revolutionary governments.

MARION, MARCEL—*Histoire Financiere de la France depuis 1715*. Vol. I, 1715-1789; Vol. II, 1789-1792. Paris, 1919.

The latest and one of the most authoritative and complete works on the subject for the period covered.

NECKER, JACQUES—*State of the Finances of France Laid before the King* (in January, 1781). (Translation.) London.

A Treatise on the Administration of the Finances of France. (Translation.) 3 Vols. London, 1785.

These treatises by the Swiss banker who was Director General of the Royal Treasury under Louis XVI and the first minister of the finances at the beginning of the revolutionary period, are important for the data which they give in regard to the public finances at the close of the old regime and at the beginning of the new.

PERKINS, JAMES BRECK—*France Under the Regency*. Boston, 1892.

France Under Louis XV. 2 Vols. Boston, 1897.

Perkins points out the economic conditions, largely due to "unwise and unjust systems of taxation," which preceded the revolution.

TAINE, H. A.—*The French Revolution*. (Translation.) 3 Vols. New York, 1878-1885.

Deals in a picturesque way with the economic and financial conditions before the revolution and with the financial methods of the revolutionary government.

THIERS, L. A.—*The History of the French Revolution 1789-1800*. (Translation.) 5 Vols. London, 1895.

M. Thiers writes authoritatively of this period. His statements in regard to economic and financial subjects are especially valuable.

WHITE, ANDREW D.—*Fiat Money Inflation in France*.

There are several editions of this classic pamphlet. The best edition was issued in Toronto in 1914 for private circulation. This is one of the best characterizations and descriptions of the effort to finance the French revolutionary period by the issue of paper money. Incidentally the author points out the dangers of excessive issues of paper money.

YOUNG, ARTHUR—*The Example of France a Warning to Britain*. London, 1793.

The observations of an intelligent English traveller who visited France during the revolutionary period.

Consulate and Empire
1800-1814

Fournier, August—*Napoleon the First.* (Translation.) New York, 1903.

Mollien, Francois Nicolas, Compte—*Memoires d'un Ministre du Tresor Public.*

These memoirs of Napoleon's Minister of the Treasury are an invaluable source of information in regard to public finances and the Bank of France during the Napoleonic period.

Pariset, Georges — *Cambridge Modern History.* Vol. 9—Napoleon. Cambridge, 1906.

Sloane, William Milligan—*Life of Napoleon Bonaparte.* 3 Vols. New York, 1896.

Thiers, L. A.—*History of the Consulate and the Empire of France Under Napoleon.* (Translation.) 20 Vols. London, 1845.

The paragraphs on the finances of the period contained in these volumes are of special value because written by one of the foremost statesmen and financiers of France who lived contemporaneously with the events described.

The Restoration
1814-1830

Cohen, Bernard—*Compendium of Finance.* London, 1822.

This book is valuable chiefly because of the information given of French finances in the transition period from the time of Napoleon's first abdication (1814) until conditions of the treasury became stabilized in 1816, and the finances reconstituted under Louis XVIII. Cohen also gives comparative data in regard to expenditures running back to 1806.

For other sources see the general histories listed below.

The July Monarchy
1830-1848

Browning, G.—*The Domestic and Financial Condition of Great Britain . . . and Statistics and Politics of France. . . .* London, 1834.

Contains useful data in regard to population, the national income, revenues, expenses and debt between 1830 and 1834.

For other sources see the general histories listed below.

The Republic of 1848 and the Second Empire
1848-1870

Martin, Henri—*History of France.* (Translation.) 3 Vols. Boston, 1877.

For other sources see the general histories listed below.

The Third Republic

1870-1913

Bonnet, Victor—*The Example of France.* New York, 1875.

Contains two essays on the payment of the indemnity and the management of the currency during and after the Franco-Prussian War (1870-1874).

Giffen, Sir Robert—*Economic Inquiries and Studies.* London 1904. Vol. I, p. 13—The Cost of the Franco-German War.

Hanotaux, Gabriel—*Contemporary France* (1870-1882). (Translation.) 4 Vols. Westminster, 1903.

An invaluable record of the economic and financial happenings immediately following the Franco-Prussian War.

Monroe, A. E.—*The French Indemnity of 1871 and its Effects.* The Review of Economic Statistics (Harvard). October, 1919.

Contains some data not to be found elsewhere.

O'Farrell, Horace Handley—*The Franco-German War Indemnity and Its Economic Results.* London, 1913.

An important independent study of this period, especially interesting to students of present currency conditions in France and elsewhere.

Simon, Jules—*The Government of M. Thiers, from 8th February, 1871, to 24th May, 1873.* (Translation.) 2 Vols. New York, 1879.

Say, Leon—*Les Finances de la France Sous la Troisieme République.* Paris, 1898.

A reprint of the official report in regard to the payment of the indemnity of 1871.

Wagner, Dr. Adolph.—"*Das Reichsfinanzwesen.*" Jahrbuch für Gesetzgebung, Verwaltung und Rechtsplege des Deutschen Reichs. Leipzig, 1874.

Gives complete data from the German point of view in regard to the payment of the indemnity by France and the use made thereof by Germany.

Wolowski, L. F. M. R.—*French War-fine; How it was Paid and the Economical Consequences thereof in Germany and France.* (Translation.) New York, 1875.

An important study.

The Great War

1914-1921

Baruch, Bernard M.—*The Making of the Reparation and Economic Sections of the Treaty.* New York, 1920.

This book is a valuable source book for those interested in having detailed information in regard to this subject.

Bogart, E. L.—*Direct and Indirect Costs of the Great World War.* New York, 1919.

Professor Bogart has given us in this publication detailed information as to the costs of the war. His estimates of the indirect costs are of special interest.

THE GREAT WAR—*Continued*

1914-1921

CHÉRADAME, ANDRÉ—*The Pan-German Plot Unmasked.* New York, 1917.
Pan Germania. New York, 1918.
These books state concisely and clearly the proposed plans of Germany for the control of Central Europe and the exploitation of France and other nations for the benefit of Germany.

JÈZE, GASTON—*The Economic and Financial Position of France in 1920.* The Quarterly Journal of Economics. London, February, 1921.

NOTESTEIN, WALLACE and STOLL, ELMER E.—*Conquest and Kultur.* Washington, 1918.
This pamphlet, prepared by these well known historians for the United States Government, is made up of quotations from German publications stating the aims of Germany for world control and the methods proposed to be used to secure it.

PERIODICALS: *Bankers Trust Company Foreign Information Service*, New York; *Banque Suisse, Monthly Circulars*, Bâle; *English Commerce Reports; International Institute of Agriculture Bulletins*, Rome, Italy; *L'Économiste Européen*, Paris; *L'Économiste Francais*, Paris; *London Joint City & Midland Bank Monthly Review*, London; *Statesman's Year Book*, London; *The Economic Review*, London; *The Economist*, London; *The Statist*, London; *Stock Exchange Gazette*, London; *The Times*, London; *The Times*, New York; *Wall Street Journal*, New York; *United States Commerce Reports.*

BANKS AND BANKING

Annuaire des Valeurs admises à la Cote Officielle de la Bourse de Paris.
Contains annual reports, quotations and other data.

Assemblée Générale de la Banque de France. Compte Rendu au nom du conseil general de la Banque et Rapport de MM Les Censeurs.
The annual report to stockholders.

CONANT, CHARLES A.—*A History of Modern Banks of Issue.* New York, 1915.

COURTOIS, ALPHONSE — *Histoire des Banques en France.* Paris, 1881.
This is one of the standard histories of banking in France—a good authority.

Credit Establishments (The Commercial Banks of France).
Annual reports and monthly statements are published by the important incorporated banks and such reports and statements have been taken as authorities in this book.

Crédit Foncier de France—Rapports Presentes Au Nom Du Conseil D'Administration.
The annual report to stockholders.

BANKS AND BANKING—*Continued*

ELIACHEFF, BORIS—*Note sur le Crédit Foncier de France.*

An original study in manuscript by this careful writer which has been of value in the preparation of the chapter on the Crédit Foncier.

KAUFMANN, DR. E.—*La Banque en France.* Paris, 1914.

This is a translation into French of a book originally published in Germany in 1910. It is a very complete study of banking conditions in France as of the date of original publication.

LIESSE, ANDRÉ—*Evolution of Credit and Banks in France from the founding of the Bank of France to the present time (1909).* United States National Monetary Commission—Senate Document No. 522, Washington, 1909.

Reviews the steps by which the Bank of France has obtained a dominating position in France. Also gives particular attention to the development of the great joint stock banks (credit establishments.)

MASON, J. M.—*Fiscal Systems of France, Germany, England and the United States.* United States National Monetary Commission. Senate Document No. 403, Washington, 1910.

A report upon the manner of appropriating, receiving, handling and disbursing public moneys. Attention is given to the assistance rendered by the banks in fiscal operations.

NEYMARCK, ALFRED—*French Savings and Their Influence Upon the Bank of France and Upon French Banks.* United States National Monetary Commission. Senate Document No. 494. Washington, 1910.

M. Neymarck gives an account of the enormous annual savings of the French people and of the great support this gives to the Bank of France and to French credit.

NOËL, OCTAVE—*La Banque de France Historique et Organisation Administrative.* Paris, 1888.

M. Noël gives the history of the bank from its origin in 1800 and valuable information as to the way in which the bank's affairs are organized and its business conducted.

Notes on the Postal Savings Systems of the Leading Countries. United States National Monetary Commission. Senate Document No. 658. Washington, 1910.

Gives an account of the history and organization of such systems.

Outline of the European Co-Operative Credit Systems. International Institute of Agriculture. Rome, 1912.

PATRON, MAURICE—*The Bank of France and Its Relation to National and International Credit.* United States National Monetary Commission. Senate Document No. 499. Washington, 1909.

M. Patron shows how the Bank of France pursues the essential objects of building up and protecting the national gold reserve rather than seeking a profit for its shareholders. Describes the support which the bank has given to foreign money markets at various times.

National Monetary Commission—United States Senate Document No. 405, Washington, 1910.

Interviews held in Europe by delegates of the National Monetary Commission with representatives of the leading banks and financial institutions—Important.

THE BUDGET

STOURM, RENÉ—*The Budget*—(Translation from 7th Edition of "Le Budget," Paris, 1913.) New York, 1917.

This is a book which must be studied, not read, and it can only be thoroughly digested by studying it with the Compte General de L'Administration des Finances. As the translators have not given the French for many technical terms, the reader will find it essential also to have before him a copy of the French edition.

GOVERNMENT

BARTHELÉMY, JOSEPH—*Le Gouvernement de la France*. Paris, 1919.

BODLEY, JOHN EDWARD C.—*France*. 2 Vols. London, 1898.

This is one of the best books on the French constitution and form of government. Mr. Bodley lived many years in France and wrote from a personal knowledge of conditions there. In the first volume he gives an interesting characterization of the different classes of French society. So far as the government of France today is concerned, it should be borne in mind that in many respects conditions have changed since this book was written.

BRYCE, VISCOUNT JAMES—*Modern Democracies*. 2 Vols. New York, 1921.

Needless to say, the chapters on the government of France will be found to be particularly valuable, not only for the information given but because of Viscount Bryce's comments.

BUELL, RAYMOND L.—*Contemporary French Politics*. New York, 1920.

In the words of Prof. C. F. J. Hays of Columbia University, this volume is "neither dogmatic nor sentimental. It describes and analyzes. . . . It forms a vital contribution to a sound and lasting accord between the first republic of the old world and the first republic of the new."

POINCARÉ, RAYMOND—*How France is Governed*. New York, 1919.

This book is written by the present Premier and a former President of France. On this account it is particularly valuable and authoritative although Sait and Bryce are more recent and somewhat more detailed.

SAIT, EDWARD MC C.—*Government and Politics of France*. New York, 1920.

A very complete study of national and local government in France. Excellent for detailed information. "The author is at pains to show how each law, each institution, has worked and does work in practice."

GENERAL

BASTABLE, C. A.—*Public Finance*. Third Edition. London.

This standard work contains much information of value in relation to French banking and financial conditions.

DAVIS, WILLIAM S.—*A History of France from the Earliest Times to the Treaty of Versailles*. New York, 1919.

One of the best short histories brought out as a result of the war. Contains excellent outline chronology of French history and a good select bibliography with discriminating notes.

DURUY, VICTOR—*A History of France*. New York, 1920.

This is a condensed translation of Duruy's well-known History of France. Duruy's history is especially strong on economic subjects. The sections dealing with financial and economic subjects may be found by reference to index.

GENERAL—*Continued*

English Consular and Commercial Reports.

These reports are valuable sources of information in regard to French affairs. They may be found in the Accounts and Papers from year to year.

LEVASSEUR, E.—*Histoire du Commerce de la France.* 2 Vols. Paris, 1911.

Contains data in regard to commerce, banking and commercial crises.

PALGRAVE, R. H. INGLIS—*Dictionary of Political Economy.* 3 vols. London, 1919.

WEALTH AND INCOME

Many French writers on the subject of wealth and income base their estimates on what is known as "L'Annuite devolute." They assume that the transfers of property by death or by gift as reported for tax purposes represent 1/32 of the total fortune of the country and 1/4 of the national income. M. Edmond Théry bases his estimates on an analysis of the values of the different entities which make up what may be called the public estate and estimates the national income from a summation of the probable income from these various sources. M. Théry's method of calculation gives somewhat larger figures than the other method but seems to be nearer to the facts.

BONNET, VICTOR—*The Example of France.* New York, 1875.

BROWNING, G.—*The Domestic and Financial Condition of Great Britain . . . and Statistics and Politics of France. . . .* London, 1834.

COMBAT, F. J.—*Finances Publiques Emprunts et Placements pendant la Guerre.* Paris, 1917.

FOVILLE, A. DE—*La Richesse en France.* (Revue Economique International. Vol. 2, p. 7.) Paris, 1906.

International Financial Conference. Brussels, 1920. Paper IV.

Contains estimates for different countries of pre-war national incomes and at about 1920.

MICHEL, ALBIN—*La Richesse Française.* Paris, 1918.

Office National des Valeurs Mobilieres. Paris, Annuaire 1913-1914: p. 804, Montant du portfeuille francaise; p. 805, Revenue du portfeuille francaise; p. 807, Statistiques Générales.

PUPIN, RENÉ—*Richesse Privée et Finances Françaises de L'Avant-Guerre a L'Apres Guerre.* Paris, 1919.

An excellent French authority for period referred to.

STAMP, SIR J. C.—*National Wealth and Income of Chief Powers.* (Journal of Royal Statistical Society, July, 1919.)

An authoritative source of information on this subject as of dates immediately preceding the war.

THÉRY, EDMOND—*La Fortune Publique de la France.* Paris, 1911.

La Fortune Publique de la France. (L'Économiste Europeen, February 22, 1918, p. 116.)

Les Problèmes Economiques de la Guerre. Paris, 1916. See also chapter XXVII of this book.

Index

D